CHAPTER 5

Experiences and Institutional Mapping in Indian Context

Having acknowledged the reality that microfinance has is a powerful tool for the upliftment of the poor the world over, the NGOs in the India were quick to respond. They not only widely used MFI but also brought about innovative changes in the management of MFIs. Indian NGOs promoted several models of MFI which were later impelled by NABARD and consequent commercialization of banks. The three identified themes of the MFI Movement in India are: Inclusion, Innovation, and Impact. In this chapter an effort has been made to trace the growth of MFIs in India and do the institutional mapping of the major institutions involved in the development, regulation and delivery of microfinance in the Indian context.

5.1 Context and genesis of Micro-finance Sector in India

As discussed in Chapter 1, India through its five years plans made concerted efforts to address poverty in the country. In the process, it experimented with various approaches and programmes for poverty eradication like IRPD, TRYSEM, and DWCRA. IAY, MWS, JSY, JSRY etc. Notwithstanding the degree of success or failure, these programmes have contributed to the improvement in the socio-economic status of the poor, but only to a limited level. Since most of them were target-based involving lengthy procedures for loan disbursements, high transaction costs, and lack of supervision and monitoring, success was not upto desirable levels. While the banks often claimed of poor repayment allegedly causing high level of non-performing assets (NPAs), the clients often complained of faulty identification of beneficiaries, nepotism and corruption on the part of officials.
The credit needs of the poor are not new. Earlier these needs had been met largely by informal sources such as moneylenders, kith and kin, friends, employers and landlords. Borrowing from these informal sources often involved exploitative rates of interest and resulted in strengthening of systems of oppression. The formal sources of credit in India promoted by the government have been banks and poverty alleviation programs. The track record of these formal sources has not been positive. Micro-finance, in the form in which it is being promoted currently, circumvents the drawbacks of both the formal and the informal systems of credit delivery.

There were certain misconceptions about the poor people that they needed loan at subsidized rates of interest on soft terms. It was considered that they lacked education, skills, capacity to save, credit-worthiness and therefore were not bankable. Nevertheless, the experiences of several SHGs (self-help groups) revealed that rural poor are actually efficient managers of credit and finance. Availability of timely and adequate credit is essential for them to undertake any economic activity rather than credit subsidy. It is these experiences which form the rationale of micro-finance which have created trust that and confirmed the hypothesis that the poor can be relied upon to return the money that they borrow. Moreover, the repayment will also be on time. It has been proved that the poor are capable of thrift and savings. It is these existing, requirements and conditions that are tapped by micro-finance initiatives.

Then despite the vast expansion of the formal credit system and increase in the flow of credit to the poor, a large section of them were still outside the banking fold because their needs were small, frequent, and emergent i.e. arise unexpectedly even at odd hours. The credit needs of the poor vary with time and are quite divergent, ranging from consumption needs to capital requirements. Banks often found that engaging in small loans to individuals was not always cost-effective business, thus they were unable to structure suitable credit products to address the very poor.
Further, one of the basic lacunae of the credit services of the banks was their inability to assure the small borrowers of repeat loans.

Since the credit requirements of the rural poor could not be adopted on project lending approach as it is in the case of organized sector, there emerged the need for an informal credit supply through SHGS. The rural poor with the assistance from NGOs have demonstrated their potential for self-help to secure economic and financial strength. Thereby proving the positive correlation between credit availability and empowerment of the marginalized specially women. Before 1990's, credit schemes for rural women were almost negligible. The concept of women's credit was born on the insistence by women oriented studies that highlighted the discrimination and struggle of women in having access to credit. However, there was a perceptible gap in financing genuine credit needs of the poor especially women.

Commercial Banks have played a dominant role in financial markets in India. Thus the government felt the need to regulate them. The major objective of the nationalization of banks in 1969 and 1980 was to improve the flow of institutional credit into poor households. The credit market expanded significantly in the post-nationalization phase due to improvement in outreach and initiation of social banking. As per NABARD between mid 1970s and mid 1990s bank credit in the rural sector increased by nearly 240,000 million and rural deposits increased by about 410,00 million. Therefore, the share of both rural credit and deposits almost doubled during this period.

However, trends also show that development outlook commercial banks weakened considerably in the 1980s and 1990s. reflecting lot of cynicism and lack of trust in the bank ability of the poor. The IRDP targets were achieved under compulsions and lot of relaxations at the end of year, because lack of achievement of targets meant holding up of next installment which no district head would want. Hence at the year end loans were given by overlooking many eligibility conditions.
There was deterioration in the pace of increase in outreach of commercial agencies and a decline in non-institutional sources in the 1980s. There is also a deceleration in the growth of commercial bank credit to rural areas in terms of both disbursal and outstanding in the late 1980s and early 1990s. There is a close connection between the commercial banks outreach to the rural economy and the government's commitment to anti-poverty programs.

The high cost of appraisal and monitoring led many banks to abandon low-value advances, aggravating the already vitiated repayment climate further. The high level of dependence of the informal sector on non-institutional sources continued despite a rapid growth of banking network in India in the last five decades. At present, the rural financial system, functions through an impressively large network of more than 150,000 retail outlets. Despite such phenomenal expansion of the outreach of the formal banking structure, the All India Debt and Investment Survey 1999 (Gol) gave indications that the share of non-institutional agencies (informal sector) in the outstanding cash dues of the rural households was quite high at 38%. It was also seen that households in the lower asset groups were more dependent on the non-institutional credit agencies.

The skeptical attitude of banks in financing the poor was rooted in comparatively high transaction cost of reaching out to a large number of people who were spread widely and had small, sudden and frequent needs. Then poor tended to view banking as an institutional set up for the rich and elite; and harbored apprehensions in approaching the banks. Moreover the repeated visits required the need to forego the daily earning of the day without being sure of the outcome even if they did approach the branch. The levels of mutual inconvenience and discomfort made the poor look at banking as an almost inaccessible service, and the banks felt that banking with the very poor was not a 'bankable' proposition.
A dilemma seems to exist between developing a sound banking system and simultaneously dealing with poverty. There appears to be a mismatch between development goals and what is expected of economic/financial prudence. In the recent years, economic factors eventually took precedence over the social agenda.

Regional Rural Banks which were set up with the primary objective of meeting the credit needs of the weaker sections, were advised to lend 60 per cent of their incremental credit to the target population in the early 1990s. This was later brought down to 40 per cent and by end 1990s it was 10 per cent. Further, frequent loan waivers and write-offs, which were steps taken in political interests, hastened the process of the erosion of the rural credit delivery system. Now there seems to be a general agreement among the banking authorities and development professionals that development agencies in the non-governmental sector should be called upon to act as intermediaries in the delivery and management of micro credit. The formal sector consequently took the initiative to develop a supplementary credit delivery mechanism by encouraging non-governmental organizations (NGOs) to act as facilitators and intermediaries. Currently, the rural micro-finance sector is dualistic in nature.

Expansion of Banking Network

The last four decades witnessed a rapid growth of banking network in India under the guidance and initiative of the Reserve Bank of India (RBI). The main emphasis in the spread of the banking network and introduction of new instruments, credit packages and programmes, and sectoral and institutional 'benchmarks' was to make the financial system responsive to the needs of the weaker sections in the society comprising small and marginal farmers, rural artisans, landless agricultural and non-agricultural laborers and other small borrowers falling below the poverty line.
Focus on the Poor and Weaker Sections

With the establishment of RRBs (Regional Rural Banks) for serving the poor exclusively, and a direction to the commercial banks to route at least 10% of bank credit to the weaker sections, a clear policy environment was created for providing small loans to the poor. This dispensation was in addition to the cooperatives which were the earliest institutional channel for credit to the rural poor. The direction to the banks to provide credit to the poor on their own accord was also preceded by the implementation of focused programmes by both central and state governments, viz., Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Laborers (MFAL), Drought Prone Area Programme (DPAP), etc. In absolute terms, there has been a phenomenal growth in the flow of institutional credit for agriculture during the last 5 decades from a level of Rs. 885 crore in 1970-71 to Rs. 38,054 crore in 1998-99 (estimated).

Priority of Financial Services

It is very often said that credit 'per se' is not a sufficient factor for economic development, but assumes significance when preceded by or accompanied with sustained economic and social activities. In a study commissioned by Asia Technical Department of the World Bank (1995), it was observed that the priority across different types of financial services among the rural poor was consumption credit, savings, production credit and insurance. Not only consumption constituted two-thirds of credit usage, but even within consumption credit, almost three fourths of the demand was for short periods for meeting emergent needs such as illness and household expenses during the lean season. While almost 75% of the production credit (which accounted for about one-third of the total credit availed of by the poor) was met by the formal sector, mainly banks and cooperatives, almost entire demand for consumption credit was met by the informal sources at high to exploitative interest rates that varied from 30% to 90% p.a. Due to the inability of the poor borrowers to offer any security for their small consumption loans, they were unable
to take short term consumption loans from the formal banking system even though RBI guidelines did provide for granting of consumption credit by banks. Consequently, a large number of the poor continued to remain outside the fold of the formal banking system.

Involvement of Banks

After the institution of social control in banks and their nationalization, a big thrust was given on provision of credit to the weaker sections by commercial banks while RRBs were established to provide credit exclusively to the poor. The policies concerning rural credit through the banking system were hitherto pursued on certain assumptions such as,

♦ the rural poor have no capacity to save,
♦ could only be developed through subsidy linked poverty alleviation credit programmes, and
♦ Interest rates of credit from informal sources were exploitative, etc.

These assumptions led to the policy orientation focusing on capital subsidies and low rates of interest on loans, target oriented poverty alleviation programmes, credit guarantee for small loans, fixing up of sectoral targets for disbursement of credit, soft lending terms including nil or very low down payment, long loan maturities and grace periods, relegation of savings as a source of funds, increasing reliance of the rural credit system on concessional refinance from higher financial institutions, etc. The above policy framework often resulted in excessive target orientation in government-sponsored programmes, improper selection of clients and projects and leakages. Poor interest margins practically forced banks to cut down on appraisal and monitoring costs which further resulted in low recoveries stifling the recycling of credit which neither contributed to the sustained growth of the rural credit system nor did it adequately serve the rural poor to make them self-supporting and self sustaining.
5.2 Current Structure of the Micro-finance Sector in India

In India the credit delivery system has evolved in two ways - formal and informal.

**Credit delivery mechanisms**

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<tr>
<th>Formal</th>
<th>Informal</th>
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<tbody>
<tr>
<td>Co-Operatives, Primary Land Development Banks, Private Commercial Banks, District Cooperative Banks, Public Sector Commercial Banks (CB), Primary Societies And Urban Banks Regional Rural Banks (RRB), Private sector Banks</td>
<td>Rotating Savings And Credit Associations (ROSCAS), Commission Agents, Traders, Merchants, Local money lenders and Contractors</td>
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The rules and regulations within the financial sector govern these institutions. Since existing private banks do not do much rural lending, the Reserve Bank of India has provided for the setting up of Local Area Banks in the private sector to promote savings in the rural sector and to provide credit locally.

The informal system consists of traders, merchants, moneylender's etc which are governed by self formulated norms and rules.

The formal structure has a legal and regulated component, which provides credit and other services to the non-formal sector.

The non-formal structure largely comprising NGOs, SHGs, clusters and federations of groups operate outside the legalized structure and have demonstrated considerable organizational flexibility and dynamism in responding to the demands at the grass roots.
Some of the major institutional sources of bulk credit to the Indian micro-finance sector consist of

- NABARD, Mumbai;
- Small Industrial Development Bank of India (SIDBI), Lucknow;
- Rashtriya Mahila Kosh RMK, a government initiated NGO under the department of Women and Child Development;
- Housing and Urban Development Corporation (HUDCO), New Delhi;
- Housing Development Finance Corporation (HDFC), Mumbai;
- Friends of Women's World Banking (FWWB), Ahmedabad.

5.3 Institutional Mapping of Micro-Finance

5.3.1 National Bank for Agriculture and Rural Development (NABARD)

NABARD was set up in 1982 specifically as an organization for providing undivided attention, forceful direction and pointed focus to the credit problems of the rural sector. Presently NABARD is the primary agency for coordinating and facilitating the extension of rural credit. Commercial banks supplement the efforts of NABARD and co-operative banks, in meeting the credit requirements of rural India.

The corporate mission for microfinance set by NABARD envisages reaching banking services to one-third of the very poor of the country, i.e., a population of about 100 million rural poor through one million SHGs by the year 2007-08. The banking system has already reached microfinance services to 40 million poor through SHGs, reinforcing this commitment. The overall strategy adopted by NABARD relied on two main planks: (i) expanding the range of formal and informal agencies that can work as SHG promoting institutions, and (ii) building up capacities of the increasing number of stakeholders.
NABARD with its reason de toire took the lead in evolving an informal credit system with assistance from formal financial institution. A pilot project for linking SHGs with banks was launched by NABARD in 1992. The Reserve Bank of India (RBI) persuaded commercial banks, regional rural banks and cooperative banks to actively participate in the linkage programme. Under the RBI's guidelines, banks were given permission to open saving bank account in the name of SHGs and relaxation of security requirements. Thus with the involvement of banks, NGOs and SHGs members NABARD aimed to achieve the following:

a. Supplementary credit to SHGs
b. Reduction in transactions cost for both banks as well as SHGs by reducing paper work
c. To mobilize small savings among poor rural women
d. To build mutual trust and confidence between banks, NGOs and rural poor
e. To create healthy relations between SHGs members and the linking agencies
f. Constant supervision and monitoring by banks through NGOs

In the year 2000, the RBI set up a special cell to liaise with NABARD and other institutions for augmenting the flow of credit. A Task Force was instituted by the Bank to evolve an organizational and regulatory framework for mainstreaming micro-finance operations. A series of research studies and action research projects during the early Eighties to help devise delivery mechanisms for improving the access of the poor to banking services had led NABARD to mainstream the SHG-bank linkage strategy, while continuing to look for other delivery mechanisms and selectively support them.

The SHG – Bank linkage was introduced by NABARD in February 1992, as a Pilot Project to cover 500 SHGs with policy back-up from the RBI for which detailed guidelines were issued to the banks in February 1992. These instructions were very comprehensive and allowed flexibility and discretion to the banks in effecting linkage of informal groups. Stress on compulsory savings, linking of credit with
savings, lending decisions by the SHGs on the basis of collective wisdom, peer-pressure and group cohesion as collateral substitutes, absence of margin, unit costs, etc., were the hallmarks of these operational instructions. NABARD brought together the SHGs already promoted by NGOs, and the banking system, to provide various financial services.

**SHG-Bank Linkage Programme**

Based on the studies mentioned above and the results of action research conducted, NABARD developed the Self Help Group [SHG] - bank linkage approach as the core strategy that could be used by the banking system in India for increasing their outreach to the poor. The strategy involved forming SHGs of the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing loans to members, and in the process learning the nuances of financial discipline. Bank credit to such SHGs followed. NABARD saw the promotion and bank linking of SHGs not merely as a credit programme but as part of an overall arrangement for providing financial services to the poor in a sustainable manner leading to empowerment of the members of these SHGs.

Facilitating SHGs to access credit from formal banking channels, SHG-Bank Linkage Programme has proved to be the major supplementary credit delivery system with wide acceptance by banks, NGOs and various government departments.

NABARD provides 100 per cent refinance assistance to banks at an interest rate of 6.4 per cent per annum for financing SHGs. In addition to concessional 100% refinance to the banks, NABARD provides policy guidance, technical and promotional support mainly for capacity building of NGOs and SHGs that are involved in micro-finance activities. Additionally, NABARD also provides other types of support, such as, for training of bank staff, NGOs, and government agencies involved in the area of micro-finance. The pilot phase was followed by the setting up of the Working Group on NGOs and SHGs by the RBI in 1994. This came up with wide-ranging
recommendations on the internalization of the SHG concept as a potential intervention tool in the area of micro-finance. Encouraged by the success of the programme, RBI issued detailed instructions in April 1996 to the banks to treat lending to SHGs as a normal credit activity under weaker section and priority sector.

Totally, under the linkage program, 81,780 SHGs were provided micro credit by banks during 1999-2000 bringing the cumulative number of SHGs credit linked to 114,775. NABARD has also introduced the concept of bulk lending to NGOs in the form of revolving fund assistance to be provided on a selective basis to NGOs who find it difficult to secure loans from banks for on-lending to SHGs. Broadly, three different models have emerged under the programme, viz.

(i) NABARD - Bank - SHG (without NGO intervention),
(ii) NABARD - Bank - SHG (with NGO or other SHPI as a facilitating agency), and
(iii) NABARD - Bank - NGO - SHG (with NGO as financial intermediary).

NABARD’s credit schemes are gender neutral. Focused attention to gender issues in credit and support services, is given through the women’s cell set up by NABARD where credit is provided in the form of refinance assistance to the banking system in respect of their advances for agricultural, allied sectoral rural cottage and village industries activities. NABARD has brought out a number of schemes exclusively for the benefit of women-entrepreneurs. These are

- Assistance to Rural Women in Non-farm Development (ARWIND)
- Support for setting up women development cells (WDC)
- Assistance for Marketing of Non-farm Products of Rural Women (MAHIMA)
- Gender Sensitization Programs

NABARD has also sanctioned a number of credit-linked promotional programs in the form of Rural Entrepreneurship Development Programs (REDPs), Artisan guilds, and Training-cum Production Centres (TPCs), with the intention of enhancing women’s entrepreneurial capabilities and settling them into self-employment and wage employment.
The progress under the SHG-Bank linkage programme has been quite impressive. The repayment of loans both at SHG level and bank level is excellent at near 100%. About 84% of these groups are exclusive women groups. Further, the progress so far has established the bankability of the poor, particularly women. As part of its development strategy in promoting mF initiatives, NABARD has provided grant assistance of Rs. 2.01 crore (as on 31 March 1999) for capacity building and training requirements of partner institutions, viz. NGOs, SHGs' Federations, SHGs and banks.

Criteria for success as observed from the NABARD experience are homogeneity and affinity among members, regularity in savings, collective decisions, increase in income, creation of employment opportunities, building common fund as main bondage among members at SHG level, non-subsidy orientation, reduction in transaction costs, both in credit and savings operations, profitable social banking with almost 100% repayment of loans at the bank level and add-on activity leading to deepening of NGOs' intervention as cementing factor for core developmental functions at the NGO level.

The success of the SHG linkage programme has evoked response from Hon'ble Union Finance Minister during Budget speech for 1998-99,

"NABARD had launched a limited scheme for promotion of SHGs as a channel for the flow of funds to the microenterprises. I am asking NABARD to greatly extend the scope and coverage of the scheme so that 2 lakh SHGs covering 40 lakh families can be assisted over the next 5 years through this scheme of Microcredit. Ten thousand SHGs covering 2 lakh families will be assisted during this year."

SHG-bank linkage strategy also figured in the Budget speech of the Hon'ble Finance Minister for the year 1999-2000 when he indicated,

"NABARD and SIDBI had launched schemes for promotion of SHGs and NGOs as a channel for flow of funds to microenterprises. Following last year's budget
initiatives, NABARD is likely to cover about 15,000 SHGs in 1998-99, as against the target of 10,000. I am asking NABARD and SIDBI to redouble their efforts in this direction and ensure coverage of at least 5,00,000 SHGs during the course of the next year."

What had started off in 1992 as a modest pilot testing of linking around 500 SHGs with branches of half a dozen banks across the country with the help of a few NGOs, today involves about 20,000 rural outlets of more than 440 banks, with an advance portfolio of more than Rs.1, 200 crore ($ 240 mn) in microfinance lending to SHGs. Financial services have reached the doorsteps of over 8 million very poor people, through 500,000 SHGs, hand-held by over 2,000 development partners. On its part, NABARD has embarked on its Corporate Mission of supporting one million SHGs by the year 2008 through mF interventions. Significantly, the SHG approach has also been recognized by apex organizations like Rashtriya Mahila Kosh (RMK) and SIDBI in supporting the NGO initiatives under mF.

Micro Finance Development and Equity Fund (MFDEF) – Structure and Guidelines

During the year 2005-06, Government of India has decided to redesign the existing mFDF as microFinance Development and Equity Fund (mFDEF) with the objective to facilitate and support the orderly growth of the microfinance sector through diverse modalities for enlarging the flow of financial services to the poor particularly for women and vulnerable sections of society consistent with sustainability. It was also decided to enhance the fund size from the existing Rs100 crore to Rs 200 crore. The additional amount of Rs 100 crore will be contributed by Reserve Bank of India, NABARD and the commercial banks in the same proportion as earlier (40:40:20).
Activities to be supported from out of the mFDEF

The Fund is to be utilized to support interventions to eligible institutions and stakeholders through capacity building and funding support.

Capacity Building or Training of SHGs, CBOs, NGOs/VAs, Banks, mFIs, NABARD, Training Establishments, networks, service providers

- Training of SHGs and other groups for livelihood, skill upgradation and micro enterprise development.
- Capacity building of staff of institutions involved in microfinance promotion such as Banks, NGOs, government departments, NABARD, etc.
- Capacity building of MFIs.

Funding Support to NGOs/VAs, CBOs, mFIs, Banks

- Contributing equity/other forms of capital support to MFIs, service providers, etc.
- Providing financial support for start-up and on-lending for microFinance activities;
- Supporting Self Help Promotion initiatives of banks and other SHPIs.
- Meeting on a selective basis the operational deficit of financial intermediary NGOs/MFIs at the start up stage;
- Rating of MFIs and self regulation

Creating Managing information systems of SHGs, NGOs/VAs, Banks, mFIs, NABARD

- Supporting systems management in regard to MIS, accounting, internal controls, audits and impact assessment
- Building an appropriate data base and supporting development thereof.
Regulatory & Supervisory Framework

- Recommending regulatory and supervisory framework based on an ongoing review to Banks, mFIs, SROs, NGOs /VAs / mFI Networks, NABARD

Studies & Publications by Banks, mFIs, NABARD, Training and Research Organizations, Academic institutions and Universities Any other organization as may be decided by the Advisory Board from time to time.

- Commissioning studies, consultancies, action research, evaluation studies, etc, relating to the sector.
- Promoting seminars, conferences and other mechanisms for discussion and dissemination.
- Granting support for research
- Documentation, Publication and dissemination of mF literature.

Mode of assistance from the Fund includes the following:

- Promotional support for training and other promotional measures
- Loans and advances including soft loans
- Revolving Fund Assistance (RFA) to NGOs/ mFIs
- Equity and quasi equity support to MFIs
- Administrative subsidies and grants
- Administering Charges

MicroFinance- NABARD's Strategy

- Forming and nurturing small, homogeneous and participatory self-help groups (SHGs) of the poor has today emerged as a potent tool for human development. This process enables the poor, especially the women from the poor households, to collectively identify and analyze the problems they face
in the perspective of their social and economic environment. It helps them to pool their meager resources, human and financial, and prioritize their use for solving their own problems.

- The emphasis on regular thrift collection and its use to solve immediate problems of consumption and production not only helps to meet their most urgent needs, but also trains them to handle larger financial resources more skillfully, prudently and with a more lasting impact.
- Encourage SHGs to become a forum for many social sector interventions.

Region-specific Initiatives

- NABARD has intensified its efforts for roping in new partners for promotion and linkage of groups in regions where the growth of groups has not been commensurate with potential.
- Priority has been assigned to awareness-building and for identification of NGOs and other partners in 13 priority states, which account for 70% of rural poor in the country.

Capacity Building Initiatives

- NABARD has supports/sponsors capacity building programmes for various partners in the field of microfinance to sensitise and equip them with concept & nuances of SHG bank linkage programme. Upto the end of March 2004 about 687,000 persons have been trained by us through our regional offices, training establishments, resource NGOs and partner agencies.
- NABARD provides training inputs on SHG financing to training establishments of participating banks, to help them to internalise the training requirements at their level.
- NABARD gives technical support to banks to evolve suitable intermediate structures like Farmers' Clubs (Vikas Volunteer Vahini Programme of the
National Bank) to increase the outreach of their branches in promotion and linking SHGs

- NABARD supports and helps banking institutions (especially RRBs & cooperative banks) to take on the role of Self Help Promoting Institutions (SHPIs)

Support to Governments

- Necessary assistance is provided to the governments by NABARD for dovetailing mF practices with the poverty alleviation programmes
- NABARD also encourages the association of Panchayati Raj Institutions (PRIs) in adopting group processes for maximization of empowerment.
- NABARD, in association with Lal Bahadur Shastry National Academy of Administration, Mussoorie conducts tailor made exposure programme on self help group and microFinance for senior and middle level officers of Indian Administrative Services (IAS) who are posted as district collectors/ Chief Executive Offices of local administrative set ups (Zilla Parishad)

Support to NGO Partners

- Several steps have been taken by NABARD for capacity building of NGOs which partner in promotion and nurturing of SHGs. The emphasis is on involving a large number of NGOs. Special focus is on those NGOs participating in watershed development, health, literacy and women development, to encourage them to take up promotion, nurturing and linkage of SHGs as an 'add-on' activity.
- NABARD has a scheme of part-financing the cost of promotion of groups by NGOs.
- NABARD has developed specialized programmes for use by CEOs of NGOs for appropriately envisioning this as an add-on concept. Separate
programmes have also been designed for NGO field staff to appreciate the nuances of SHG functioning.

Alternate mF practices

- The NGOs and other local bodies at village block and district levels in the North Eastern States are encouraged to take up alternative micro-credit delivery mechanisms through direct funding.
- Formation and operation of SHG Federations is supported and encouraged by NABARD. Similarly, networking of NGOs is also encouraged.

Coordinating mF Efforts in India

NABARD coordinates the mF activities in India at international/national/state/district levels. These include organizing international/national Workshops, Seminars, and etc for experience sharing, Organizing National and State level Meets of Bankers and NGOs etc.

Dissemination of best practices in SHG / microFinance.

Monitoring and Review

Block/district/state level review meetings are organised and/or organised by NABARD. The relative documentation and database is also carried out by NABARD. In addition, periodical Monitoring studies are conducted through NABARD/Bank Officers. Internal Impact Studies and are conducted by NABARD periodically.

Credit for Women - 14 Point Action Plan of NABARD

Redefining of banks' policies/long term plans;
- Setting up of women cells;
- Simplification of procedural formalities;
• Orientation of bank officers on gender concerns/credit requirements of women;
• Publicity campaigns for creating awareness about credit facilities;
• Entrepreneurship development programs/training facilities for women;
• Specialized branches for women;
• Motivational strategies to enthuse bank officers/staff;
• Monitoring system;
• Data collection;
• Strengthening of existing schemes;
• Increasing the limit for not obtaining collateral security;
• Involving NGOs/SHGs/women's cooperatives;
• Mahila Rural Cooperative Bank.

5.3.2 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

SIDBI was established in 1990 to serve as the principal financial institution for promotion, financing and development of industry in the small scale sector, and to coordinate the functions of the institutions engaged in promoting, financing and development of industry in the small scale sector. As part of the increasing national efforts to cater to the credit needs of the poor, especially in rural areas, SIDBI has recognized SHGs "as a promising tool for job creation and income generation".

SIDBI and MF

One of the earliest organized efforts in this direction was taken by SIDBI. When the micro credit scheme formulated and put into operation in March 1994. It played and continues to play an important role as an apex bank to provide financial services through an appropriate and responsive credit delivery system aimed at boosting the small-scale sector growth, employment generation and upliftment of rural poor.
Assistance was extended to select few NGOs for credit lending to rural poor with special emphasis on women to take up activities at a micro level. NGOs with good record of accomplishment are extended support services to improve their financial and managerial capabilities.

For channelling to 12 NGOs under SIDBI-GOI Trade Related Entrepreneurship Assistance and Development (TREAD) programme aimed at empowerment of women and capacity building requirements of MFIs. The MFIs include NGOs and Community-Based Organizations (CBOs).

Not only just supporting the women and NGOs, the bank which took lead has also been supporting the research and experiments to instill innovations in this aspects. For this a special body named SIDBI foundation For Micro credit (SFMC) has been formed.

Under its micro credit scheme (MCS) launched in February 1994, SIDBI has been providing financial support to well managed NGOs for on-lending to the poor individuals or their groups (with emphasis on women) for setting up micro-enterprises. The loans from SIDBI to NGOs are repayable within 5 years, thus enabling re-cycling of funds for 3 to 5 times. The interest rate from SIDBI to NGOs is 9% and on-lending to the SHGs is allowed at a maximum rate of 15% per annum. The assistance under MCS has been utilised for undertaking income generation activities like production of tussar silk, poultry and dairy products, fisheries, readymade garments, jewellery and wool spinning.

SIDBI also provides capacity building grants to NGOs for meeting managerial salaries, strengthening accounting and managerial capabilities and for training SHGs in credit utilisation and delivery to the target group. The impact studies carried out by SIDBI indicate that the support provided through NGOs has reached deserving poor women who otherwise were unable to access credit from the formal banking
system. Such credit has resulted in increased turnover and income of majority of borrowers, increased savings of members, and on-time repayment rates above 92%.

SIDBI, with a mandate for development of small and tiny enterprises, has been actively supporting promotion of micro enterprises through NGOs.

SIDBI has partnered with the Department for International Development (DFID), U.K for its capacity building initiatives. DFID has committed grant support of £16.51 million in this regard.

In keeping with its mission, SIDBI is striving for overall growth and development of the Indian micro finance sector. This is being done by providing capacity building support with DFID support in the following directions:-

- Scaling up MFIs and formalization of NGOs to significantly expand their outreach and cater to the huge unmet demand for financial services by poor while ensuring sustainability and viability of their operations;
- Initiation of micro finance by Formal Financial Institutions (FFIs) to leverage their extensive network and gain synergies from their ongoing relations with the sector through their other financial operations;
- Strengthened capacity building of capacity builders / service providers with a view to providing a steady supply of qualified and trained manpower, consultants, rating agencies and other service providers to facilitate the growth of MFIs and FFIs;
- Improved policy environment and appropriate regulatory framework for the sector
- Action Research, Promoting Innovations, Support to Micro finance networks, Impact assessment etc.
SIDBI had launched the Rs.1000 million SIDBI Foundation for Micro Credit (SFMC), in November 1998. It is a fully functional separate department of SIDBI since January 1999 on an all-India basis for effective management of financial risks involved in MCS and to further scale up its operations under MCS. The Foundation is supposed to assist NGOs and voluntary organizations on soft terms, which would in turn extend micro credit to poor people. SFMC’s mission is to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sector to provide micro finance services to the poor, especially women. SFMC is the apex wholesaler for micro finance in India providing a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector.

As of March 31 2001, the SFMC had 49 MFI clients. It has an outstanding loan portfolio of Rs. 332 million. 150,000 are ultimate clients, out of which 80 per cent are poor and 70 per cent are women. (Mohan, 2001). SIDBI has designed a number of schemes and programs to support women entrepreneurs with financial assistance as well as providing training and extension services. These schemes are, Mahila Udhyam Nidhi, Mahila Vikas Nidhi, Micro Credit Schemes (MCS). Under the MCS fund, support is provided to well managed NGOs to on-lend to rural poor women to set up their own micro enterprises. Wherever SHGs exist, the NGO lends to them, and they in turn advance the credit to their members. The cumulative assistance under MCS for the period March 1999, aggregated Rs. 307.1 million, channelised through 142 NGOs/ MFIs across 24 states/union territories benefiting over 112,000 rural poor, of which more than 90% were women. In all, 97 programs have been supported with the assistance of Rs. 6.7 million for providing training to 1550 NGOs in the areas of credit usage, management, monitoring and administration on credit programs.
SFMC is also playing significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector. The launch of SFMC by SIDBI has been with a clear focus and strategy to make it as the main purveyor of micro finance in the country. Operations of SFMC in the next few years, is not only expected to contribute significantly towards development of a more formal, extensive and effective micro finance sector serving the poor in India but also ensure sustainability at all levels viz. at the apex level (SFMC), at the MFI level and at the client level to ensure continuance of such arrangement. Most importantly, SFMC has strived to create a mechanism in which there should be no barriers to growth. Under the dispensation, there is a focus on innovation and action research.

Most micro finance programmes are being operated by NGOs and are not subjected to regulation and supervision as they are registered as Societies or Trusts. Non-regulation of these institutions has worked to their detriment in that these institutions are not able to have smooth access to funds from the financial sector which is wary of lending to such entities. This constraint coupled with the fact that SFMC was launched with a view to upscale the flow of micro credit with enabling policy modifications relating to simplification of the procedures in availment of assistance and substantial relaxation in the security / collateral requirement posed a difficult challenge. Therefore, to meet the requirements of the revised dispensation which called for selection of suitable micro finance intermediaries which could be trusted with bulk assistance without collateral constraints, Capacity Assessment Rating [CAR] was introduced by SFMC as a supplementary tool to judge risk perception.

On SFMC’s initiative, the rating of MFIs has been started by two agencies. Till March 31, 2005 224 ratings have been commissioned to MCRIL/CRISIL. SFMC has also organized two trainings on CAMEL methodology of ACCION to build the internal
capacity of SFMC officers. In addition to SFMC officers, officials from CRISIL, IIFM, Sa-Dhan, RBI, FWWB, AFCL also attended the above training.

MFIs are provided annual need based assistance. One of the unique features of the scheme is the comprehensive Capacity Building Support being provided to the MFIs/NGOs to expand their operations as well as to increase their efficiency. Customized financial support comprising of loans, capacity building grant as well as equity/quasi equity is being provided to the client institutions.

Credit worthiness is based on the rating of the borrowing institutions instead of availability of security/collateral requirements. Term Deposit Receipts (TDRs) issued by Scheduled Commercial Banks for an amount equivalent to 10% / 5% / 2.5% (depending upon geographical area of operation and duration of partnership with SIDBI).

SIDBI's support is not for any specific methodology. MFIs may on lend directly to SHGs/individuals or root their assistance through their partner NGOs & MFIs. They may also adopt any other lending channel so as to effectively reach financial assistance to the poor clients.

SFMC's capacity building efforts are directed not only towards MFIs but also towards smaller/grassroots institutions engaged in micro finance operations, training, consultancy, rating and impact assessment etc. and other service providers in the form of training, seminars, workshops, orientation and exposure visits. In order to strengthen the supply side of trained manpower, SIDBI has provided support to premier management institutes for courseware development on elective in micro finance. The faculty and resource persons from selected institutions are regularly sponsored for international exposure visits and training programmes. SIDBI has also been regularly sponsoring staff of MFIs, consultants and service providers besides management faculty for short duration training programmes in various areas of micro finance. A number of customized training programmes /
workshops on specific areas of micro finance being conducted by reputed training institutions / technical service providers for the field and managerial staff of MFIs are also supported from time to time. Institution building efforts in the area of human resource, systems, and practices are critical for healthy growth of the micro finance sector. Therefore, at the level of MFIs, to hasten up the process of professionalism, SFMC has been providing support for salary of young professionals to be recruited from reputed management institutions for absorption in MFIs.

SIDBI has taken a number of initiatives in launching / facilitating introduction / market-making of new concepts in the sector. The launch of an electronic portal for information dissemination and knowledge sharing within the sector and development of MIS software for MFIs are some such initiatives. It is also working on an MFI standardization programme on the lines of the Micro Banking Bulletin (MBB), managed by CGAP. Other major initiatives include developing a common chart of accounts for the sector, creating gender and environment awareness, promoting innovations and action research on emerging concepts etc.

A. SFMC may provide annual / need based repeat assistance to its partner MFIs. Loan assistance per MFI for on-lending is subject to a minimum of Rs.10 lakh. Variations in the minimum loan limit may also be considered depending upon the merits of the case. Normally, maximum amount lent by the MFIs to an individual borrower / SHG member must not exceed Rs.25,000/-. In exceptional and extremely deserving cases, particularly for enterprise and housing, the amount per borrower may be further increased. Repayment period (including moratorium) from 15 months to 4 years from the date of disbursement, depending upon the merits of case is considered in respect of loans to MFIs. The initial moratorium on the principal would range from 3-12 months from the date of first disbursement. However, in case of housing loans, MFIs would be required to repay the loan in 6 years excluding a moratorium, not exceeding, of 2 years from the date of first disbursement. Interest payments and principal repayments would continue to be made on quarterly basis on March 01, June 01, September 01 and December 01 of each year. What are the
main legal requirements for the MFIs? The Memorandum of Association and bye-
laws of the MFI should have explicit powers with regard to the following:

On-lending - In keeping with its mission, SIDBI Foundation identifies, nurtures and
develops select potential MFIs as long term partners and provides credit support for
their micro credit initiatives. The eligible partner institutions of SIDBI Foundation,
therefore, comprise large and medium scale MFIs having minimum fund
requirement of Rs. 10 lakh per annum. In all, around 100-125 MFIs are planned to be
developed as long term partners over the next 4 years. Large and medium scale MFIs
having considerable experience in managing micro credit programmes, high growth
potential, good track record, professional expertise and committed to viability are
provided financial assistance for on-lending. Under the present dispensation, annual
need based assistance is provided to enable MFIs to expand their scale of operations
and achieve self sufficiency at the earliest. Lending is based strictly on an intensive
in-house appraisal supplemented with the capacity assessment rating by an
independent professional agency. Relaxed security norms have also been adopted to
reduce procedural bottlenecks as well as to facilitate easy disbursements.

Capacity Building. The long-term future of the micro-finance sector depends on
MFIs being able to achieve operational, financial and institutional sustainability. The
constraints and challenges vary with the different types and development stage of
MFIs. Most MFIs are currently operating below operational viability and use grant
funds from donors for financing up-front costs of establishing new groups and
covering initial losses incurred until the lending volume builds up to a break-even
level. The MFIs are generally constrained in reaching a break-even level and finally
achieving sustainability primarily due to a narrow client and product base, high
operational and administrative costs for delivering credit to the poor, and their
inability to mobilise requisite resources. Moreover lack of technical manpower,
operational systems, infrastructure and MIS are prevalent. In view of above, to scale
up micro-finance initiatives at a fast pace, a special effort is required for capacity
building of the micro finance institutions.
In this background, SFMC has decided that need-based capacity building support in the form of grant be provided to the partner MFIs, in the initial years, to enable them to expand their operations, cover their managerial, administrative and operational costs and provide technical support besides helping them achieve self-sufficiency in due course. The grant support is being provided both as technical assistance as well as operational support. The technical assistance component is directed at helping the MFIs to strengthen their micro finance programmes through inputs such as human resource development, MIS development, effective financial and general management, training, efficient monitoring and control systems etc, whereas operational support is provided to the MFIs to meet a part of their operational deficit arising due to expansion of their programme. In view of the fact that liquidity is a major concern of many of the middle level MFIs and a small working capital support can go a long way in their better liquidity management and thus pave way for faster growth, SFMC has introduced a special short term loan scheme.

Quasi equity -The Transformation Loan (TL) product is envisaged as a quasi-equity type support to partner MFIs that are in the process of transforming themselves / their existing structure into a more formal and regulated set-up for exclusively handling micro finance operations in a focused manner. Being quasi-equity in nature, TL helps the MFIs not only in enhancing their equity base but also in leveraging loan funds and expanding their micro credit operations on a sustainable basis. The product has the feature of conversion into equity after a specified period of time subject to the MFI attaining certain structural, operational and financial benchmarks. This non-interest bearing support facilitates young but well performing MFIs to make long term institutional investments and acts as a constant incentive to transform themselves into formal and regulated entities.

SFMC would be providing direct credit to SHGs/ solidarity groups/ individual clients of the select MFIs. However, these borrowers would be supported/ supervised by the MFI. The scheme is targeted on larger MFIs which have strong credit and recovery mechanism, MIS and internal control. Under the arrangement, SFMC
would assess the MFIs ability to manage the projected micro credit portfolio and extend credit to the borrowers of MFI. There would be no restriction on the MFIs as regards their methodology for credit dispensation. The MFIs may pass the assistance directly to SHGs / individuals or route it through their partner NGOs and MFIs. They may also adopt any other channel so as to effectively reach financial assistance to poor clients.

Micro Enterprise Loans - In order to build and strengthen new set of intermediaries for Micro Enterprise Loans, the Bank has formulated new scheme for Micro Enterprise Loans. Institutions/ MFIs with minimum fund requirement of Rs. 25 lakh p.a. and having considerable experience in financial intermediation/ facilitating or setting up of enterprises/ providing escort services to SSI/ tiny units/ networking or active interface with SSIs etc. and having professional expertise and capability to handle on-lending transactions shall be eligible under the dispensation. The institutions would be selected based on their relevant experience, potential to expand, professional management, transparency in operations and well laid-out systems besides qualified/ trained manpower. Lending to be based strictly on an intensive in-house appraisal supplemented with the credit rating by an independent professional agency. Relaxed security norms more or less on line with micro credit dispensation to be adopted to reduce procedural bottlenecks as well as to facilitate easy disbursements.

SIDBI - IFAD collaboration: SIDBI has also collaborated with the International Fund for Agricultural Development (IFAD), Rome to upscale its operations in the underserved / underdeveloped regions / states as well as to increase its outreach by providing financial support to MFIs that focus on targeting the poorest of the poor, more so, women. IFAD is providing soft loan support of SDR 16.35 mn. for providing financial support to MFIs in the underserved regions.
5.3.3 ICICI

Encouraged by the SIDBI, NABARD, other commercial banks also followed their steps and entered this area. The objective of the Social Initiatives Group (SIG) of ICICI, under the Micro-finance focus area, is to facilitate the provision of financial services to the poor in a sustainable manner and, thereby, contribute definitively towards improving their livelihood prospects. It would like to promote a commercially viable approach of building livelihoods through better micro-finance institutions and delivery mechanisms.

Bharatiya Samruddhi Finance Limited: ICICI invested Rs. 10.0 million in the equity of Bharatiya Samruddhi Finance Limited, a non-banking finance company based in Hyderabad. Bharatiya Samruddhi Finance Limited provides credit to the rural poor in the states of Andhra Pradesh and Karnataka. Samruddhi has adopted a for-profit, commercially viable approach to make credit available to the poor at reasonable interest rates. It uses a number of delivery mechanisms viz. direct lending to individuals, Self Help Groups (SHGs) and Joint Liability Groups. It attempts to couple access to technical know-how with credit to the poor. ICICI has invested in Samruddhi's equity to promote the concept of a sustainable micro-finance model.

5.3.4 Rashtriya Mahila Kosh (RMK)

The Government of India established the Rashtriya Mahila Kosh (National Credit Fund for Women), in 1993, with a corpus fund of Rs. 310 million with a view to enhancing the flow of credit to the women and supporting promotional measures, particularly for those in the unorganized sector. This initiative was taken since there was a need for a quasi-formal credit delivery mechanism which was client friendly, had simple and minimal procedures, disbursed credit quickly and repeatedly, had flexible repayment schedules, linked credit to thrift and savings, and had low transaction costs.
The Main Loan Scheme of the Kosh aims to provide credit to poor women both in the urban and rural areas for income generation activities (unless specifically sanctioned for other purposes) using the NGO channel and adopting SHG approach. Specifically, women below the poverty line are eligible for support. The credit facility is channeled to needy women without the insistence of collateral. During the year 2000-2001, totally in the country, RMK attended to 46,559 borrowers. The cumulative number of borrowers since inception up to 31 March 2001, was 406,942. During the same period, 861 new NGOs availed of RMK assistance and 354 repeated previous experience. In all, the amount sanctioned by RMK was Rs.1034.73 million and the amount disbursed was Rs. 765.53 million for the same period.

Since its inception as a Society under the Societies Registration Act, 1860, RMK has been supporting NGOs for providing financial services to the poor women all over the country. It provides interest-bearing loans to NGOs, Cooperative Societies and Women Development Corporations (WDCs) and in a small measure, interest-free loans convertible into grants to NGOs for promotion of SHGs. It promotes SHG approach to encourage empowerment of women. RMK gives both short and medium term loans up to Rs.7,500 per individual at 8% rate of interest which the NGO can on-lend to either individuals or SHGs at an interest rate not exceeding 12%. In case the loans are given to SHGs, they can charge the individual borrowers up to 17.85% rate of interest.

Recognizing SHGs as appropriate mechanism for reaching the poor women, RMK has evolved a support scheme for formation and stabilization of SHGs. Under this scheme, an NGO can be given an interest-free loan of up to Rs. 1 lakh for the development and stabilization of 25 SHGs. This loan is convertible into grant subject to the formation of the SHGs, collection of regular savings and revolving of a major portion of the savings as loans to individual members. Recognizing the importance of training and exposure visits to the beginner NGOs in this field, RMK has evolved different schemes like Umbrella, Nodal Agency and Resource NGO schemes. At
present, RMK's operations are spread over 19 states and have benefited over 2.95 lakh borrowers. The repayment performance of RMK loans has been around 95%.

RMK has been instrumental in the formation of the India Collective for Micro Finance (ICMF) - a federation of NGOs advocating, practicing or facilitating fund support by way of MF. The main objective of ICMF is capacity building of intermediary agencies in terms of training, dissemination of best practices in MF, information compilation, translation of the material into the local language and the strengthening of local networks formed with similar objectives.

Other Micro Credit Delivery Initiatives

It is now being widely accepted that a large segment of population traditionally excluded by the formal financial sector can in fact be a profitable market niche for innovative banking services. Therefore, in addition to engaging in the promotion and nurturing of SHGs for linkage with the banking system, a number of NGOs have been implementing a variety of approaches for delivery of micro-financial services to the poor, especially poor women. The success achieved by Grameen Bank, Bangladesh in meeting the credit needs of the rural poor, particularly women, through group approach has inspired a number of NGOs in India to replicate the Grameen model with suitable variations and thus take on the responsibilities of financial intermediation themselves. Several large NGOs have networked with smaller NGOs for providing credit and other management inputs to them. Some NGOs have tried to promote SHGs' Federations to take on the role of NGOs, while some have tried financing through cooperatives formed under certain new Acts. Specialised agencies in the form of NBFCs which cater to the needs of the poor have also come up.

5.3.5 MYRADA

MYRADA, originally an acronym for Mysore Resettlement and Development Agency is now the accepted name and also serves as their logo. MYRADA is a Non...
Governmental Organisation started in 1968. From 1968 to 1978-79, MYRADA was involved entirely in the resettlement of Tibetan Refugees. From 1978-79 MYRADA has been involved with the rural poor, managing rural development programmes in 3 States of South India and providing on-going support including deputations of staff to programmes in 6 other States. It also promotes the Self Help Affinity strategy in Cambodia, Myanmar and Bangladesh to

- Foster a process of ongoing change in favour the rural poor in a way in which this process can be sustained by them through building and managing appropriate and innovative local institutions rooted in values of justice, equity and mutual support.
- Promote strategies and skills through which the livelihoods of poor families and the rights of women and children are secured.
- Promote systems that foster primary health care and reduce the impact of HIV/AIDS/STIs on the poor and vulnerable in a sustainable manner. To influence public policies in favour of the poor.

Sanghamithra- To strengthen networks and linkages between and among formal and informal institutions that can foster and sustain the impact of development initiatives, the idea of Sanghamithra was born in 1993 but it was several years before the institution took on a distinct shape and identity, and several more before it could clear various legal hurdles and start lending operations. This period was one of discovering strengths, building visions, defining partnerships and establishing precedents. This publication traces in sensitive and elaborate detail all the processes that went into shaping Sanghamithra into a micro-finance institution with a difference.

MYRADA is not a micro finance institution; hence it consistently refuses to accept loans/grants for on-ward lending to SAGs. MYRADA therefore decided to promote a Non-Banking Financial Institution (non-profit) called SANGHAMITHRA, which operates independently of MYRADA and lends to SAGs formed by MYRADA and other NGOs. Sanghamithra plans to remain small - with an outstanding loan
portfolio of about Rs 25-30 crores - and to promote several Sanghamithra's in other parts of the State and country. A Fund Management Company which plays the role of a holding company and which will promote and supervise the Sanghamithras is on the anvil. Sanghamithra has been supported by CIDA and HIDIA (Canada), NABARD, Canara and Indian Bank and a private donor (Mrs.R.Nilekani of Akshara Foundation). Sanghamithra's corporate office is located in Mysore; its urban office located in Bangalore was partially supported by a private donor (Ramanathan Foundation).

5.3.6 Sa-Dhan

Sa-Dhan's is a network which holds specific significance as an association of Community Development Finance Institutions, formed primarily to take forward the collective requirements of the sector for Dialoguing with policy makers, Capacity building and identification and development of minimum standards of performance and encouraging MFIs to report and adhere to these in a participatory manner so that the challenge of increasing the outreach and the credit flow to the poor is made possible in a sustainable manner. Sa-Dhan is working towards the following objectives:

- Build a strong financial system in the form of Community-based Development Finance Institutions (CDFIs) with the help of NGOs and others.
- Encourage new and existing microfinance institutions to enlarge and expand their services.
- To create opportunities for existing and new MFIs and financial institutions to further serve the cause of microfinance by establishing a supportive policy and regulatory environment.

To achieve the above, Sa-Dhan as a network, always involves all its members and works in a consultative way with all the stakeholders - be it the government, policy
makers, bankers, donors, practitioners or the poor themselves (through its members). Realizing the diversity of issues and challenges, Sa-Dhan has endeavored to work towards sustainable development of the microfinance sector through three thematic areas of Policy Advocacy, Standards and Capacity Building.

5.3.7 Indian school of microfinance

The Indian School of Microfinance for Women is a new initiative in the discipline of Microfinance established with the purpose of addressing the huge capacity building gap that exists in the sector not just in India but also outside India. It envisions “emerging as a unique school to strengthen and spread microfinance as a strategy for poverty alleviation through development of appropriate knowledge and skilled human resource”

The School has been set up by well known organizations in the field of Microfinance which have harnessed year of experience in the field namely sewa bank, FWWB and Coady International Institute. SEWA Bank is one of the eminent Microfinance Institutions in India. It has over 30 years of experience in direct delivery of microfinance services, like savings, credit, insurance, pension, financial planning and counseling. It has also worked in the area of capacity building of its staff, leaders and members. Whereas FWWB, is an apex level organization providing loan as well as capacity building support to all types of microfinance service providers. Coady International Institute, Canada has a rich history in training as well as in distance education of community leaders’ from around the world.

The School aims to build the capacity of the various stakeholders like NGO/MFI staff and trainers, bankers and policy-makers and CBFI (Community Based Financial Institution) and women leadership in microfinance sector members. It will also act as a bridge between the mainstream financial institutions and the CBFIIs, helping them work together. It will create a cadre of trained managers and leaders who will further the microfinance movement.
Objectives

- To significantly enhance the capacity of the microfinance sector in India
- To provide a thrust to microfinance practice and thinking through applied action research, publications and visitor programs
- To build a conducive environment for strengthening and spreading microfinance through policy advocacy
- To be known as an educational innovator through quality education, research and creative use of information and communication technologies such as distance and satellite learning

The research unit of the School will be a mixture of action research based on local practice and more rigorous academic studies that will continually challenge the assumptions in the sector, both which are important for moving the sector forward.

The School will significantly enhance the capacity of the microfinance sector and also push the microfinance to a different level through its various academic endeavours. It aims at building a conducive environment for the sector through policy advocacy and also to be an educational innovator in this field. The School's offerings aim at drawing upon the best of the indigenous knowledge and expertise from around the world as well, to a common platform from where it could be disseminated and made utilitarian for the MF sector.

Activities

- Educational Offerings: is the core activity of the School where it will try to bridge the gap between the participants' real and perceived needs. Helping them to choose from a range of a week long course to a six month diploma, from a general to a specialised course among other choices.
- Action learning partnerships: will include organising workshops, seminars, conferences and summits which will offer a platform for the practitioners and
academics to support exchange of experiences and development of technical knowledge.

- Action based research: is being done to study and do innovations in the field, which will also feed into the training modules offered by the School.

- Publishing and Consultancy: the School will publish working papers, training materials in major languages among others. Consultancy shall be provided in the form of technical support to organisations in the sector.

- Networking: The School plans to develop "development knowledge networks" in the strategic areas to generate and disseminate knowledge among a network of practitioners and researchers in whole of Afro-asia region. The networks will be a forum for sharing case studies, tools and methodologies, innovations, on-going research and publications.

The School will not only have significant potential to move the Indian microfinance sector to the next level; but also has potential to be an important model in development and education.

Others

BASIX is one of the largest and the fastest growing microfinance institutions in India. BASIX group works with more than 100,000 rural poor households providing range of financial services including credit, savings, insurance and technical assistance and support services (TASS) in an integrated manner. BASIX operates in 10 states of India covering in excess of 10,000 villages for providing financial services in remotest of the places where the formal financial services are otherwise unavailable.

Pradhan

With the mission of enhancing livelihoods on a large scale to empower poor people, PRADAN has been working in some of the very poor States of North India through decentralized projects for over 15 years. Identifying and organising poor women into
SHGs, building their capabilities to enhance incomes, linking them to government’s poverty alleviation programmes, etc., are the broad strategies followed by 19 project teams, each operating in a district or a few blocks within or across districts.

The approach that PRADAN has adopted requires that the groups become independent from PRADAN in a reasonable time frame i.e in about 1 ½ to 2 years, so that the staffs is free for their core task of livelihoods promotion. This requires that they are equipped with strong, yet simple and user friendly systems, especially for accounts and MIS because they are the most important ongoing function in the SHG.

Another major issue that PRADAN professional faces due to badly maintained group accounts is that the project MIS on the SHG is never up to date or complete. Updating office MIS is quite a labour intensive process that involves extensive group visits by the professional to collect data first hand. The group accountants are not able to prepare MIS statements for the group and even if they do the professionals do not have enough confidence in the statements that are prepared.

EDA Rural Systems Pvt Ltd

Established in 1983 to provide practical, relevant and professional management support to development programmes and organisations with the aim to improve their effectiveness in meeting the needs of the poor and of women EDA has undertaken innovative professional initiatives for the reduction of poverty in the South Asian region and is now, increasingly engaged in South-east Asia region as well. It has explored alternative participatory approaches to planning, monitoring and impact assessment (social/development audits) and now has one of the leading development impact assessment teams in the world.

This we see that India has a variety of MFI and MFI supporting institutions, which fulfill different needs pertaining to lending to borrowers, managing the functions, research, capacity building and policy Advocacy.
However the formal step towards legalization of the process has been through introduction of the bill titled "Micro Financial Sector (Development and Regulation) Bill 2007" in the parliament on 20th March 2007. This bill seeks to provide for promotion, development and orderly growth of the micro finance sector in rural and urban areas for providing an enabling environment for ensuring universal access to integrated financial services, especially to women and certain disadvantaged sections of the people.

The Bill comprises nine chapters that deal with the following:

- The short title, the commencement, and the definitions of various terms.
- Outline of the constitution, composition and functions of the "Micro Finance Development Council".
- The procedure of registration of microfinance organizations.
- The procedures of creating a reserve fund, balancing the accounts, auditing and filing returns.
- The functions and powers of the "National Bank" in relation to thrift and microfinance services.
- The constitution of the "Micro Finance Development and Equity Fund".
- Redressal mechanisms.
- List of offences and penalties.
- Miscellaneous provisions.

The discourse and discussion over the bill among the financial institutions, women organizations and civil society is still on.
Institutional Mechanisms
Chapter 6  Theoretical background

6.1 Types of MFIs
6.2 Institutional mechanisms
6.3 Impact assessment approaches
6.4 Database issues
6.5 Regulatory issues