Chapter 6

Theoretical Background

Microcredit is seen not only as a tool for local economic development, but as a tool for personal empowerment of the underprivileged (Johnson 1998).

These potentially different missions may lead to very different types of operational and management structures. In Asia and the Pacific, a later ADB study found a variety of approaches to microfinance, reflecting the fact that microfinance has evolved differently in different environments. Moreover, these approaches are not static as new variants have emerged that incorporate features not found earlier (e.g., voluntary savings scheme, no group guarantee). Despite differences, some common elements for success emerge:

- Successful microfinance institutions (MFIs) know their market
- Lending outlets are located near the client, application procedures are simple, and loans are disbursed quickly
- Interest rates are market-oriented to cover both operational and financial costs, recognizing that the poor are willing to pay for access and convenience.

Nonetheless, of the 10 countries studied, only in Bangladesh and possibly Indonesia had microfinance reached a significant proportion of poor households.
6.1 Types of MFIs

6.1.1 The Pure/Adapted Grameen Replicator Approach

These undertakes essentially, individual lending, but all borrowers are members of groups within which peer pressure is the key factor in ensuring repayment. Each borrower’s credit-worthiness is determined by the overall credit worthiness of the group. Savings are a compulsory component of the loan repayment schedule, but do not determine the magnitude and timing of the loan. SHARE (Self Help Association for Rural Education and Employment), ASA (Association for Social Advancement), NBJK (Nav Bharat Jagrati Kendra) are examples of this approach.

Over the years micro credit has come to mean many different things. For this reason and in order to avoid confusion, Grameen has begun to distinguish micro credit of the type it provides as grameen credit. The distinguishing features of Grameen credit are:

a) It promotes credit as a human right.

b) Its mission is to help poor families to help themselves to overcome poverty.

c) It is targeted to the poor, particularly poor women.

d) It is not based on any collateral or legally enforceable contracts but on ‘trust’.

e) It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.

f) It is initiated as a challenge to conventional banking, which rejects the poor as ‘not credit worthy’. Grameencredit rejects the basic methodology of conventional banking and creates its own methodology.

g) It provides service at the doorstep of the poor, based on the principle that the people should not go to the bank, but that the bank should go to people. It requires that borrowers join a group in order to obtain loans.

h) Loans are received in a continuous sequence, with new loans becoming available as previous loans are repaid.
Loans are to be paid back in installments as poor people find it easier to manage small repayments. A borrower may receive more than one loan simultaneously. It comes with both obligatory and voluntary savings programmes for the borrowers. It provides three types of loans: income-generating loans (with interest rate of 20 per cent), housing loans (with interest rate of 8 per cent), and higher education loans for the children of Grameen families (with interest rate of 5 per cent). All interests are simple interest, calculated on the declining balance method. Reaching the poor is the non-negotiable mission of Grameen credit, while reaching sustainability is a directional goal. It gives high priority to building social capital through the formation of groups and centres and developing leadership through the election of group leaders.

Formal and commercial institutions

There are a wide variety of institutions in India catering, with various degrees of success, to the mF needs of poor families. They comprise mF providers in the formal financial sector comprising commercial banks, RRBs and cooperative banks and MFIs; comprising NGOs, SHGs' federations and certain non-bank cooperative societies in the non-financial sector. In the recent past, a few NBFCs have also been established as MFIs.

A. Banks as mF Providers

mF has been an essential aspect of the banking policy. Though, in the present scenario, banks are serving a variety of clients and continue to play an important role in the area of mF. Therefore, banks may be treated as one of the major mF service providing institutions, though not exclusive mF institutions.

Commercial Banks are required, as per the directions of RBI, to provide loans to the priority sector comprising agriculture and allied activities, small, tiny, cottage and village industries, rural artisans, etc., to the extent of 40 per cent of their credit portfolio. This includes 18 per cent of lending exclusively to agriculture and allied
activities. Further, 10% of their loan portfolio is required to be provided to weaker section of the society covering scheduled castes, scheduled tribes, small and marginal farmers, agricultural labourers, rural artisans, etc. These loans are essentially of the nature of mF.

The banking sector has been playing an important role in providing various financial services to the poor and the non-poor. Public sector banks are currently extending credit facilities to women entrepreneurs both under Government sponsored schemes and under other schemes designed especially for women.

**Cooperative banking**

Among the three categories of banks, the **cooperative banking institutions** were the first in the formal banking sector to provide mF services to the poor. Later, a few urban cooperative banks also started providing a variety of financial services to the poor and the not-so-poor. Prominent among them is the SEWA Bank, Ahmedabad, which focuses on urban poor women by providing various financial services to them. Traditionally, these institutions in rural areas were financing only agriculture and allied sectors. With the growing need to finance all forms of enterprises and the felt need for diversification of business, the cooperative banking institutions have, in the recent past, diversified their business. Currently, nearly 70% of their credit portfolio is for agriculture and allied activities. Some of these grassroots level cooperative banking institutions, both in rural and urban sectors, have been providing small loans with focus on the poor. As on 31 March 1999, deposits and advances of the RRBs stood at Rs.26,763 crore and Rs.11,281 crore respectively, with their advances to the target group accounting for 65% of their total loan portfolio.

The credit extended by Scheduled Commercial Banks (SCBs) primarily cover priority sector lending and the sponsoring of Regional Rural Banks (RRBs). The co-operative banking system in India is structured along the following lines - the urban areas are served by the Primary (Urban) Co-operative Banks, whereas the rural areas have two
sets of institutions dispensing short term and long term credit respectively. The
former group consists of the State Co-operative Banks at the apex levels, the District
Central Co-operative Banks at the intermediary level, and the Primary Agricultural
Credit Societies at the grass root level. Under the long-term credit structure, the State
Co-operative Agriculture and Rural Development Banks are at the apex level, the
Primary Co-operative Agriculture and Rural Development Banks are at the base
levels.

The Urban Co-operative Banking Model
Savings groups consist of 10-15 members whose deposits range from Rs. 10-25 per
month. These are collected from the women's homes by bank staff. The ability and
motivation to save is an important pre-condition for a woman to be able to obtain
credit. SEWA is an example of this kind of a model which primarily lends to the
urban sector but has also extended its services to rural women.

B Intermediaries

The intermediaries consist of institutions that act as the link between the apex bodies
and the clients. NABARD has been working towards linking more self-help groups
to the banking system also through the co-operative banking system Regional Rural
Banks (RRBs) lend mostly to the poor for agriculture and micro-enterprise sectors.
As reported in March 2000, the total priority sector lending of PSBs constituted 43.6%
of net bank credit. The total priority sector lending of private sector banks as of the
same date was 38.7 % of net bank credit. The Lead Bank Scheme (LBS) of the RBI is
supposed to enhance the proportion of bank finance to the priority sector. This
scheme co-ordinates the activities of banks and other developmental agencies. As on
31, March 2000 the LBS have covered 575 districts.
C Non-banking financial companies' (NFBC) or Sanghamitra Model

This is a new model of micro-finance that attempts to cater mainly to the needs in mature SHGs. It is related to aspects of scaling-up and sustainability. It lends to mature SHGs with a good savings and credit background. Loans are disbursed in the form of cheques only and repayment is also collected in the form of cheques only. Consequently SHGs and its members understand and utilise banking mechanisms.

The mission of this approach is to promote a large number of sustainable livelihoods through the provision of financial services and technical assistance in an integrated manner. The entire community is viewed as an interconnected whole, hence this institution involves the poor as well as the not-so-poor. Credit is seen as a necessary but not a sufficient condition for generating and sustaining livelihoods. BASIX consists of a not-for-profit NBFC, Bharatiya Samriddhi Finance Ltd. which provides the financial services and a not-for-profit company, Indian Grameen Services, that provides the technical assistance.

Non-Banking Financial Companies (NBFCs) are companies registered under the Companies Act, 1956 and regulated by the Reserve Bank of India. The RBI (Amendment) Act, 1997 has made it obligatory for NBFCs to apply to the Reserve Bank of India for a certificate of registration. The NBFC must have a minimum Net Owned Funds (NOF) of Rs. 25 lakh (since raised to Rs. 2 crore for new applicants). NBFCs which did not have the minimum NOF at the commencement of the Act were required to achieve the stipulated minimum NOF within 3 years. The RBI introduced a new regulatory framework for the NBFCs in January 1998 with focus on NBFCs accepting public deposits with a view to safeguarding the interests of the depositors. eg Sanghamitra, Bangalore, BASIX, Hyderabad, SHARE Microfin Ltd, Hyderabad, Indian Association for Savings and Credit [IASC], Marthandam, Tamilnadu and CFTS, Mirzapur, Uttar Pradesh.
Further, in a significant move, since April 2000, micro credit/rural credit has been included in the list of eligible non-banking financial companies’ (NFBC) activity for being considered for FDI/OCB/NRI investment. This would cover extension of credit facilities at the micro level to small producers and small enterprises in the rural and urban areas. Besides the data that is available with the RBI, NABARD and SIDBI, there are individual case studies of banks and their efforts to promote micro-finance among the rural poor. For example, the Cauvery Grameena Bank (CGB), a Regional Rural Bank (RRB) sponsored by the State Bank of Mysore, was launched on October 2, 1976. It now operates in three districts in Karnataka with a network of 118 branches. CGB has been actively financing SHGs prompted by NGOs since the launch of NABARD’s pilot project during 1992-93. In 1995-96 CGB was identified as the first RRB in the country to participate in NABARD’s project of promoting RRBs as Self-help Promoting Institutions (SHPI). By March 1998, the bank had formed 143 SHGs of which 92 are women’s groups with a total membership of 2,135. The groups were able to generate savings of Rs.1,320,000 upto March 1998. (Rao, 2000).

Kosh

It is owned by the members of village communities, which provides a variety of financial services to a group of people, otherwise untouched by formal financial institutions. This institution provides support to the Gram Sabha Nidhi foundations in managing the rural communities’ financial resources. Sarva Jana Seva Kosh Ltd. (Kosh) is a non-banking financial company and is an example of this kind of approach.
D Mutually Aided Cooperative Societies (MACS) or The Co-operative-Grameen Hybrid Model

Herein it is registered as a Mutually Aided Co-operative Society (MACS), and covers clients in five different districts, three rural and two urban. The Society uses joint liability groups of five members each to provide loans. Mahila Vikasa is an example of this kind of an approach.

Govt. of Andhra Pradesh had enacted the Mutually Aided Cooperative Societies (MACS) Act in 1995 for the voluntary formation of cooperative societies as accountable for competitive, self-reliant, business enterprises based on thrift, self-help and mutual aid and owned, managed and controlled by members for their socio-economic development. The societies set up under MACS Act have certain advantages over the existing traditional cooperative societies, the most important being the freedom given to their management from government interference in their affairs, raising of resources, absence of provision for super session of the elected board, greater accountability, etc. On the same token, any society set up under MACS Act may not be able to access funds from the government.

INFORMAL SYSTEM

A The basic SHG model and minor variations

This type mobilizes clients into self-help groups, which are mostly of women. Shared problems of poverty, oppression and gender-based discrimination are used as entry points after which credit and savings are introduced. The SHG is not too large or too small and functions on a democratic basis. Savings are a compulsory feature of the SHG activity. Only those SHGs which have performed well and have sustained, are assisted with linkages with banks and other financial intermediaries like federations and clusters. Hence the NGO acts as a catalyst and performs the role of social intermediation. It plans, builds capacity, creates linkages to donors, and MFI wholesalers. Examples of these are PRADHAN (Professional Assistance for Development Action), DHAN (Development of Human Action) Foundation,
SHGs' Federations

SHGs' Federations are generally formal institutions registered under Societies Registration Act, 1860 or under analogous State Acts. NGO-MFIs such as these have federated several SHGs so as to overcome the limitations of individual SHGs. Federations when registered, usually come under the Societies Registration Act. They have between 1000-3000 members. In a three-tiered structure, the groups form SHGs after which clusters are formed and then Federations. In the two-tiered structure, the SHGs are directly federated.

Formed as a result of SHGs to network in clusters and the cluster representatives to network at block level federations. This approach brings synergy in integration of community level programmes with SHG approach. This has at times enabled them to pool the resources of individual SHGs so that even short term surpluses are used by other resource-deficit SHGs. The federations facilitate training of SHGs, undertake internal auditing and ensure that the SHGs and clusters gain self-reliance in running their own affairs. SHGs' Federations, promoted by certain prominent NGOs like MYRADA, DHAN Foundation, LEAD, Chaitanya and SEWA Bank, are functioning in different parts of the country as providers of financial services, such as mobilizing thrift and providing credit and other non-financial services like training group members and extending various support services, viz. input supply, storage, marketing and legal services. In a few cases, the state governments have also taken initiatives in promoting SHGs by establishing organizations with federal structures. Notable among them are the Community Development Societies (CDS) in Kerala and Mahalir Thittam in Tamil Nadu.

In addition, MFIs work for creating favorable conditions for the poor to look for and accept MF interventions. At times, they also facilitate marketing and other linkages.
for overall development of their members. Of these services, credit is the most widespread, while many provide savings services also.

SIFFS is a large network of fishermen's organizations and currently operates in the states of Kerala and Tamil Nadu and the Union Territory of Pondicherry. It is to establish its operations in Andhra Pradesh too. The NGO has three core business areas-fish marketing, technology intervention and credit delivery/facilitation (linkages with banks). SIFFS establishes bank linkages, enables fisher-men to tap external funds and directly lends to members.

The Rural Industries Promotion (SHG) Framework
The structure is so established that it manages itself like a private limited company for, by and of women. MYRADA is an illustration of this kind of an approach, which attempts to facilitate delivery of a total package to women.

The Co-operative Solidarity Model
ICNW (The Indian Co-operative Network For Women) is an illustration of this model where women organize themselves into neighborhood-loan groups of 5-15 members. The women are residents of the same area and have lived there for a period of more than 5 years.

The Enabling Co-operative Networking Framework
The CDF (Co-operative Development Foundation) is an example of this approach. The CDF is a Not-for-Profit institution involved in promoting and supporting MFIs. This co-operative system consists of bringing together women's and men's thrift co-operatives which consist of 300 members usually from the same village.

The Training cum Production Centre Approach
This approach is unique, since it provides for loans of raw materials rather than real money. Poor women are organized into groups of 5-10, which are then provided
extensive training in the specific processes involved in any production activity. The members are then issued the raw material required for the particular production process that they are trained in. The value of the raw material is credited to their name as the loan amount.

The SHG Co-operative Model

Youth Charitable Organization (YCO), is a non-profit rural development agency based in Andhra Pradesh. This NGO works with the poorest marginalized rural families and promotes self-reliance and self-help. Programmes include micro-finance, housing, income generation, water, sanitation, agriculture, health, education, agro-forestry and waste-land management.

6.2 Basic institutional mechanisms

The product design features combine the collective wisdom of the poor, the organizational capabilities of the social intermediary and the financial strength of the Banks. Its features are ...

1. Small and fixed savings at frequent intervals: Small and fixed savings made at regular intervals coupled with conditions like compulsory attendance, penal provisions to ensure timely attendance, saving, repayment etc forms a deterrent for the rich to join the SHG system- thereby enables exclusion of the rich.

2. Self-selection: The members select their own members to form groups. The members residing in the same neighborhood ensure better character screening and tend to exclude deviant behaved ones.

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1 Source: Kropp, E.W and Suren, B.S. 2002: Linking Banks and Self Help Groups in India-An Assessment; Paper presented at the National Seminar on SHG-Bank Linkage, New Delhi
3. **Focus on women:** As regular meetings and savings are compulsory ingredients in the product design, it becomes more suitable for the women clients— as group formation and participatory meetings is a natural ally for the women to follow.

4. **Savings first and credit later:** The saving first concept enables the poor to gradually understand the importance of saving, appreciate the nuances of credit concept using their own money before seeking external support (credit) for fulfilling future needs. The poor tend to understand and respect the terms of credit better.

5. **Intra group appraisal systems and prioritization:** Essentials of good credit management like (peer) appraisal for credit needs (checking the antecedents and needs before sanction), (peer) monitoring- end use of credit; (peer sympathy) rescheduling in case of crisis and (peer pressure) collateral in case of wilful non-payment etc all seems to coexist in the system – making its one of the best approaches for providing financial services to the poor.

6. **Credit rationing:** The approach of prioritization i.e.: meeting critical needs first serves as a useful tool for intra-group lending. This ensures the potential credit takers/users to meticulously follow up credit already dispensed, as future credit disbursals rely on repayments by the existing credit users.

7. **Shorter repayment terms:** Smaller and shorter repayment schedule ensures faster recycling of funds, greater fiscal prudence in the poor and drives away the slackness and complacency that tends to set-in, in long duration credit cycles.

8. **Market rates of interest:** Self-determined interest rates are normally market related. Sub-market interest rates could spell doom; distort the use and direction of credit.

9. **Progressive lending:** The practice of repeat loans and often-higher doses - is followed by SHGs in their intra-group loaning, thereby enticing prompt repayments.
10. A multiple-eyed operation: The operations of the SHG are transacted in group meetings thus enabling high trust levels and openness in the SHG system. SHG members facilitating openness and freedom from unfair practices also generally conduct the banking transactions.

Organisational and Operational Concerns

The most common mechanism used by microfinance institutions to offer their services to clients is group-based lending. Borrowers form groups to mutually guarantee one another’s loans. The groups meet weekly or biweekly to make loan repayments and to deposit savings. Loan cycles and repayment schedules for micro credit are short, usually four to six months, to account for the nature of most micro businesses—enterprises with cash turnover on a daily and weekly basis. The interest charged on loans is always significantly lower than the rate charged by other credit sources for poor women, such as loan sharks and moneylenders.

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<th>Organizational Aspects</th>
<th>Operational Aspects</th>
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<td>• Community participation</td>
<td>• Savings systems and procedures</td>
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<td>• Training of community leaders</td>
<td>• Credit loans - terms and conditions</td>
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<tr>
<td>• Community group formation process</td>
<td>• Repayment procedures and options</td>
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<tr>
<td>• Networking and involvement of other agencies</td>
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<tr>
<td>• Accounting and record keeping</td>
<td>• Fund creation strategies</td>
</tr>
<tr>
<td>• Institutionalization of the programme</td>
<td>• Review and monitoring Process</td>
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<td>• Financial intermediaries</td>
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A specified amount of savings is usually required in order for a group to receive a loan. For most women members, their savings represents the first-ever opportunity to accumulate money for purchasing assets or emergency use. Field staff that support the microfinance groups are a critical component. They are usually the “face” of any microfinance program, as they attend all group meetings and train
groups on how to elect leaders, decide on loan amounts and manage their own finances. Of course, each microfinance program is slightly different, but this basic methodology forms the foundation of most programs worldwide.

Comparative analysis of models

In chapter 1 various types of MFIs were reviewed which be classified into major Comparisons of various models. In an longitudinal study has done impact assessment of three major models and compared the features of these models.

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<th>Operational features</th>
<th>SHG</th>
<th>GRAMMEN</th>
<th>IB</th>
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<tr>
<td>Clients</td>
<td>Primarily women</td>
<td>Primarily women</td>
<td>Primarily men</td>
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<tr>
<td>Targeting</td>
<td>The poor</td>
<td>The poor</td>
<td>Poor and non poor</td>
</tr>
<tr>
<td>Groups</td>
<td>15-20 clients per group</td>
<td>Usually 5 per group</td>
<td>Individual clients</td>
</tr>
<tr>
<td>Service focus</td>
<td>Savings and credit</td>
<td>Credit regular cycle</td>
<td>credit</td>
</tr>
<tr>
<td>Meetings</td>
<td>Monthly</td>
<td>Weekly</td>
<td>Individual often daily</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>Rs 20-100 per month</td>
<td>Rs 5-25 per month</td>
<td>Flexible</td>
</tr>
<tr>
<td>Interest on savings</td>
<td>Bank rate (4.25%) + profit share</td>
<td>6-9%</td>
<td>6% +</td>
</tr>
<tr>
<td>Initial loan size</td>
<td>Rs 5-10000</td>
<td>Rs 2-5000 per group</td>
<td>Rs 5-15000</td>
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<tr>
<td>Effective interest rate</td>
<td>24-28%</td>
<td>32-38 %</td>
<td></td>
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<tr>
<td>Insurance</td>
<td></td>
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<tr>
<td>Development services</td>
<td>Some associated programmes</td>
<td>A few small social projects</td>
<td>Enterprise support</td>
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Role of non-governmental organizations (NGOs) in microfinance

NGOs which have their genesis normally in the health and education arena after working in field were forced to be community sensitive and need based. The need expressed for livelihood and micro credit became instrumental for initiating their steps in this direction. Due to their origin, size, philosophy and approach NGOs have emerged as very effective change agents in organizing, nurturing, and stabilizing SHGs and ultimately facilitating their linkage with the formal banking system so as to improve their outreach. Becoming the vehicles for the expansion of outreach due to their close grassroots links with the people, field-based development orientation of micro credit and they have matured in their

2 EDA Rural Systems Pvt Ltd longitudinal study of various models for SFMC
management skills. There exists a wide spectrum of NGOs, gradually broadening their approach to include livelihood issues of the poor. The most critical problem faced by NGOs was in finding money to lend out to the poor.

NGOs have made major contributions to the development of microfinance in various ways, especially by demonstrating clearly that lower-income people can be good borrowers. However, NGOs are dependent on donor funding and, as NGOs, they are unlikely to play a large role in the future of microfinance.

For a number of reasons, most institutional microfinance should be implemented by licensed and supervised institutions, most importantly because the mobilization of public savings, required for institutional sustainability, needs to be supervised.

NGOs whose boards and managers perceive the larger trends will be able to make the choices that are appropriate for their institutions in the coming decades. Some may become licensed financial institutions. Others may choose to turn instead to activities such as employment generation and skill training, health, family planning, education, the environment, and human rights.

Over the years, some of the NGOs have transformed themselves as agencies providing financial and other linkages. Their commitment and keen understanding and responsiveness give them the strategic strength.

It is very often perceived that NGOs are structurally not the right type of institutions for undertaking financial intermediation activities as the bye-laws of these institutions are generally restrictive in allowing any commercial operations. They also do not have capital base that may be used for leveraging funds from higher financing institutions. Moreover, they are non-profit organizations and their inherent characteristics make their task of financial intermediation difficult. While the experiences are mixed, many of them now recognize that economic empowerment of the poor has to go hand in hand with their social empowerment.
However, from the information of institutions like NABARD, SIDBI and RMK, it may be reasonably estimated that over 500 NGO-MFIs are engaged in financial intermediation in different parts of the country.

The Working Group on NGOs and SHGs (1995), set up by the RBI, had examined, _inter alia_, the role of NGOs in promoting SHGs and facilitating linkage with banks and the structural and legal constraints faced by them, and had made several recommendations on financial and technical support to NGOs. The Group had observed that NGOs are one of the most suited agencies for training and empowering the rural poor and have generally been instrumental in the promotion of SHGs in different parts of the country.

While NGOs as microfinance institutions have had some success in facilitation and social intermediation, there is little evidence of the fact that they have had much success in poverty reduction feels Bibhudutt Padhiin. She recommends the development of a symbiotic relationship between NGOs and banks, with the former efficiently utilizing their strengths in social engineering and the latter focusing on pure financial intermediation. Such a strategic partnership, feels, will help achieve the otherwise elusive targets of outreach to the poor and financial sustainability.

Reviewing the role of non-governmental organisations (NGOs) in microfinance from an operational perspective, Nair asserts that with a few notable exceptions, the record of NGOs in mainstreaming microfinance is a modest one viewed from the context of NGOs as microfinance institutions (MFIs). When judged by the two criteria of success that much of the microfinance world has adopted – outreach to the poor and financial sustainability – the results are not encouraging [Nair 2001]. NGOs as MFIs have thus far had trouble achieving both objectives simultaneously. There is also little evidence of any aggregate impact on poverty reduction as the result of MFIs' forays. The success of NGOs has however been laudable where facilitating and social intermediation criteria are applied. It is here that the author feels that the strategic partnership between banks and NGOs is poised to change the
developmental intervention map of India. Second, the essay suggests that banks, for all their laudable work, will be making a strategic error in focusing on financial intermediation while ignoring partnership with NGOs. While microfinance is never easy for other types of institutions trying to practise it (e.g., NGOs or credit unions), it is not, as will be explained, a field where a banker has natural advantages.

**Importance of NGO Partnerships**

NGOs are the most preferred MFIs as they are particularly good providers of socially oriented financial services (Nair, 2001). Many of the NGOs have completely changed their strategies of social intermediation—from issue-based activities to financial intermediation. Some of them are on their way to becoming formally established, self-sustaining commercial banks. The transition is not a simple switching from one activity to another. There is a radical transformation in the way NGOs have to function. These require dramatic changes in approach (from intensive area-centric planning to extensive target-oriented planning); in the language of communication within the organization; in the language of communication between the organization and the people; the skills of functionaries in the organizational culture and in administrative practices. The Government of India has initiated schemes that are directed towards extending microcredit towards rural poor households. Some schemes are exclusively directed towards women. Intermediaries are instrumental at various levels and in different capacities, in implementing these schemes. The SIDBI Best Practices Handbook in Microfinance describes three types of NGO-MFIs depending upon the amount of savings they have mobilized. The first type are without deposit taking or have mobilized savings of less than Rs.0.2 million. The second type are those with mobilized savings more than Rs. 0.2 million and less than Rs. 2.5 million. The third type of NGO-MFIs are those with mobilized savings more than Rs. 2.5 million. NGO-MFIs are functioning in diverse manners thereby generating different models of microfinance interventions.
To the extent that banks incorporate NGOs' activities in mainstreaming their self-help group (SHG) portfolios, they stand to gain. To the extent NGOs reorient their mission, vision and personnel towards the microfinance agenda, as a large number have done in the last decade, they risk drawing themselves away from work they are uniquely suited to do. Some of this work, moreover, would play a critical role in preparing the ground for MFIs among poor people. In other words, NGOs have to move away from pure financial intermediation to investing in human and social capital at the grass roots and bankers have to tap this invaluable experience of NGOs in mobilising, graduating and enabling rural communities. This will prepare the ground by enhancing credit absorption capacity of SHGs and enhancing their creditworthiness.

In 1997, the World Bank's Sustainable Banking for the Poor (SBP) project completed an ambitious survey. Until then those interested in microfinance had an intuitive sense of the movement's growth, but no systematic attempt had yet been made to gauge its dimensions, nor look comprehensively at its results. The findings were unambiguous: NGOs acting as MFIs did not have any significant outreach vis-à-vis other financial institutions purveying micro credit. Interestingly, commercial banks accounted for 78 per cent of the total number of outstanding microloans, and credit unions 11 per cent. NGOs accounted for only 9 per cent, and savings banks (which are not primarily in the credit business) just 2 per cent. Also, commercial banks accounted for 68 per cent of the total outstanding loan balance, savings banks 15 per cent, credit unions 13 per cent and NGOs 4 per cent. In terms of numbers of clients, commercial banks and credit unions showed significantly greater overall outreach than NGOs. While NGOs' outreach, on average, was deeper, it was also narrow — NGOs reach some very poor people, but they do not reach many. On the other hand, credit unions and commercial banks also serve some wealthier clients so that their average outreach to the poor is not as deep. Still, the indications are that overall, credit unions and commercial banks serve more under-served poor clients than do.
NGOs. This is not to rule out the role of NBFCs, NGOs with MFIs activities or pure MFIs. The demand for financial services is high and as stated by the High Level Task Force on MF: “At least 25,000 bank branches, 4,000 NGOs and 2,000 federations of SHGs involving over 1,00,000 personnel of these institutions would have to be associated for scaling up and bank linkage of one million SHGs. Many of these NGOs will transform themselves into MFIs and will not only facilitate microfinancing, but will also themselves do the necessary financial intermediation. Similarly, many federations of SHGs will take on financial intermediation and act as MFIs.”

In the current context with over 4,60,000 SHGs credit-linked with banks, the SHG-bank linkage programme of microfinance has emerged as the biggest in the world. But besides banks, the major role played by NGOs in facilitating this transformation cannot be over emphasized. The National Bank for Agriculture and Rural Development (NABARD) which plays a role in promoting and facilitating bank linkages while networking and coordinating the activities of all players in the field has underscored the crucial role played by NGOs as facilitators in purveying bank credit to SHGs. The story of the three models of this massive programme has been brought out by NABARD.

Lately they started facing new problems because they are not part of the formal financial structure. A good number of NGOs, besides playing a catalytic role of friend, philosopher and guide to the SHGs, have also assumed the role of financial intermediaries either directly or by networking with smaller NGOs or by promoting SHGs’ federations and other outfits like Mutually Aided Cooperative Societies (MACS).

ICT and Microfinance

ICT can play a major role in the improving the functioning of microfinance even though at first glance, it might appear somewhat amusing and incoherent. The illusion of incoherency comes naturally because microfinance is mostly used for
fighting poverty where people have no access to basic necessities and ICT tools like telephone, computer and internet are unimaginable luxuries. But on the other hand, the experience has shown that development of microfinance can be achieved not only through the existence of effective, stable, transparent but also through well-managed microfinance institutions capable of keeping their operating costs at the lowest possible level.

In terms of execution and follow-up, however, a microfinance loan is an expensive proposition. The implementation of efficient information systems and the computerization of the networks, to which the microfinance institutions belong, are hence conditions essential to both their survival and growth. They are also key factors in the transparency of their accounts and in the rating operations carried out by agencies such as PlaNet Rating.

ICT helps accelerate the process of communication between networks that have already achieved a high level of technical sophistication but can hardly be seen as a priority for people deprived of water, food, homes, garbage collection systems, whose countries lack proper social care services, educational structures and democracy. The digital divide does not seem to be their primary concern, and bridging the same is given a far less priority as compared to any of the aforesaid elements. Nevertheless, ICT can play a major role in the fight against poverty and at the same time, it is precisely in the context of the fight against poverty that these new technologies can help to reduce the digital gap most effectively.

Leveraging technology for micro banking

One of the key challenges in extending access to financial services in under-served rural markets has been the high 'cost to serve'. This includes the costs associated with origination; supervision and continuous monitoring that are incurred in these markets. Increasingly, technology is being viewed as key to a low-cost banking

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1 Bindu Ananth Basuwee Barooah, Social Initiatives Group, ICICI Bank
strategy for the rural market. There is need to outline the areas in which technology can impact costs as well as present some international experiences.

Management of cash

In rural areas, the transactions between various parties (banks, traders, input dealers, and farmers/consumers) are predominantly cash based and are very low in value. The cost of cash based transactions is higher as compared to electronic/non-cash based transactions. It is because of the following additional costs involved:

Cost of idle cash

Idle cash, lying either with the bank branch, a merchant or a consumer, does not earn any interest and the party holding it has to bear the cost of interest lost. Thus higher the idle cash, higher the cost of lost interest.

Cost of cash handling infrastructure

It includes cost of branch set up, cost of manpower and the cost of cash security. This cost increases with decrease in value of transaction and decrease in denomination of currency transacted.

Geographical spread of customers

If the current structure of the bank branches were to be used to cater to the need and requirement of the rural population, it would mean setting up a bank branch in virtually every village. The cost of such a large network would not justify the revenues generated from it, given the nature of transactions. Thus, the challenge for banks is to innovate a low-cost network/delivery channel with a high outreach and flexibility with respect to the timing of its operation.
A New Law and an Opportunity to Expand the Breakthrough

Over the last several years, this report has heralded a new U.S. law, which requires the U.S. Agency for International Development (USAID) to develop and certify, by October 2006, two or more cost-effective poverty measurement tools that measure US$1 a-day poverty. The new tools are to replace the size of a client’s loan, which is currently used, but has proven to be inadequate for accurate poverty measurement. After the newly mandated tools are certified, institutions receiving micro enterprise funds from USAID must use one of the tools and report the number of entering clients who live on less than US$1 a day. The law is an effort to bring accountability and transparency to the long-standing Congressional commitment to have at least half of USAID micro enterprise funds benefit very poor clients.

The new law could have a profound impact on all of development, not just microfinance, by assisting leaders in fields such as health and education in their own efforts to ensure that the very poor are not left out. In addition, the law could have an equally profound impact on the Micro credit Summit’s new goal which seeks to ensure that 100 million of the world’s poorest families move from below US$1 a day, adjusted for PPP, to above US$1 a day by the end of 2015. This new Micro credit Summit goal is central to achieving the MDG on halving the number of families living below US$1 a day by 2015.

If the potential impact is to be fully realized, however, the new law’s requirements must be embraced by other leading development institutions. This was attempted in late 2003 when more than 700 parliamentarians from the United States, the United Kingdom, Canada, Japan, Australia, India, and Mexico wrote to the heads of the World Bank, the three regional development banks, and UNDP with such a request. The parliamentarians acknowledge the revolutionary nature of microfinance and make the following requests:
1. Increased funding for microfinance: Given the unrealized potential of microfinance to contribute to meeting the MDGs, we find it perplexing that an institution such as the World Bank invests less than one percent of its annual spending on microfinance. In a case such as this, we believe resources should at least be doubled given that scores of institutions around the world have the capacity to reach tens of millions more of the very poor sustainably.

2. At least 50 percent of funds reaching the poorest: By December 31, 2006, we ask that your institution makes the commitment to having at least 50 percent of your microfinance investment reach clients who are living below US$1 a day or within the bottom half of those living below their nation’s poverty line when they start with a program. We believe that it will take a clear mandate by your institution to reach these very poor families. Just as a revolution in banking was required in order for microfinance to even exist, we believe that a revolution in development is required to ensure that the very poor are reached, a revolution that will not come from incentives alone.

3. Use of cost-effective poverty measurement tools to ensure meeting the target of half of resources going to families who are living below US$1 a day when they enter a program: Perhaps most importantly, by December 31, 2007, we would like to see you require that the microfinance institutions with whom you work use cost-effective poverty measurement tools to determine the proportion of their clients living below US$1 a day, and use the same or similar tool to show which portion has moved above US$1 a day. Among the most important developments in poverty reduction is a new U.S. law requiring the development and use of cost-effective poverty measurement tools by programs receiving USAID microenterprise funds. Where else in development assistance can we show that the very poor are being reached with tools that can help them move out of poverty with dignity?
4. An annual reporting of results: By December 31, 2008, we would like to see your institution report, on an annual basis, the amount of resources provided for microfinance and the percentage of those resources that reach families who were living on less than US$1 a day when they entered a program (based on use of the U.S.-certified tools that will be developed in the next two years). The actions taken by the new leaders at the World Bank, the regional development banks, and UNDP will show whether there is indeed a new vision, one that truly recognizes sustainable microfinance for the very poor as a powerful tool for meeting the

6.3 Impact assessment concerns and approaches

Institutional microfinance is characterized worldwide by what has been called the 'absurd gap' between demand and institutional supply. Thus, despite the widespread demand for financial services - for both credit and savings facilities - it is estimated that institutional finance is unavailable to about 90 percent of all households in developing countries. This includes most of the poor people in the developing world. The primary reasons for the low institutional supply of microfinance demand are:

(1) the pervasive misunderstandings about local financial markets that are widespread on the part of many governments, financial institutions, and donor agencies; and

(2) the low level of influence in their respective societies of those who constitute the demand. The misunderstandings arise out of myths that are prevalent and have been the most damaging:

- **Myth one**—Microfinance institutions cannot reach the poorest because they are too costly to identify and motivate.
- **Myth two**—If an institution succeeds in reaching the very poor, it cannot become financially self-sufficient.
- **Myth three**—An institution that somehow manages to reach the very poor and become financially self-sufficient will only be adding a debt burden to those families.
These myths spring from the belief that micro credit will not help the world's poorest families move out of poverty. Every year, however, progress is made as each myth is more fully discredited. It is critical that these myths be refuted both individually and as a group. For those who promulgate the myths see them as interconnected. The Campaign, therefore, has addressed them both separately and as a group. In 1998, in an effort to show that the poorest families could be identified at low cost, the Campaign launched a Poverty Measurement Tool Kit that included two tools: 1) Participatory Wealth Ranking (PWR) and 2) the CASHPOR House Index (CHI). The Toolkit was a result of a Poverty Measurement Discussion Group launched by the Campaign in 1997.

Both tools were tested against CGAP's more rigorous and more costly Poverty Assessment Tool. CGAP found that: "Participatory Wealth Ranking...offers a far more reliable method for communities themselves to identify who the poor are...It asserts the primacy of local knowledge over externally determined measurement criteria and lets the community take charge in deciding how rankings are to take place." CGAP also found, "the appeal of [the Housing] index lies in its being simple, observable, and verifiable...Housing can be used as an excellent proxy for ranking households." Since the Poverty Measurement Toolkit was launched, the Campaign has organized two-hour workshops on the tools for more than 3,000 practitioners in 35 countries of Africa and Asia and nearly a dozen four-day trainings throughout Asia.

Myth two is refuted with mounting evidence showing that you can reach the very poor and build a financially self-sufficient institution. It becomes more difficult when clients are in remote areas, but institutions in Africa, Asia, and Latin America have demonstrated over and over that it can be done. For several years now, the Microfinance Information eXchange (The MIX) and the Micro-banking Bulletin (MBB) have shown that MFIs that reach very poor clients can grow to be financially
sound. CGAP CEO Elizabeth Littlefield, made that point last year at the Asia/Pacific Microcredit Summit held in Dhaka, Bangladesh. There is no evidence of a necessary trade-off between poverty and sustainability. Very recent data from our MBB and from the MIX show us that the best poverty-focused microfinance institutions are breaking right through conventional wisdom. Sustainable microfinance institutions that serve lower end markets, the poorest, reach, on average, one and a half times as many borrowers as other microfinance [institutions] and they do it with fewer resources. Hence, these institutions do a much better job of stretching their resources to reach more clients. In terms of clients served, they are far more efficient with their human resources, serving each borrower at half the cost, on average, of a sustainable institution serving higher market segments.

This point is most clearly made in the case of the Association for Social Advancement (ASA) in Bangladesh, an institution that reaches more than 2.7 million clients, many of them very poor when they start. ASA has been called the most efficient MFI in the world, able to lend at a cost of US 3.5 cents per dollar lent. And finally, myth three is refuted when it is shown that microfinance, while not a panacea, is still the best tool we have to reduce poverty among the very poor. Perhaps the most compelling data on the impact of micro credit to date can be found in two important documents published in 2005. One is Shahidur Khandker’s in-depth study of three Bangladeshi MFIs: BRAC, Grameen Bank, and RD-12, the latter a government program. The additional findings are in the United Nations Development Program’s Human Development Report 2005. draw from research done in 1991/92 and again in 1998/99 by the World Bank and the Bangladesh Institute of Development Studies. Khandker found:

- Moderate poverty in all villages declined by 17 percentage points, 18 points in program areas and 13 percentage points in non-program areas.
- Poverty declined by greater than 20 percent for program participants who had been members since 1991/92, which is about three percentage points
per year. Greater than half of this reduction is directly attributable to microfinance.

- The impact was greater on extreme poverty than moderate poverty.
- Spillover effects among non-participants due to growing economic activity: Microfinance reduced poverty among this group by some 1.0 percentage points annually for moderate poverty and 1.3 percent annually for extreme poverty.

Based on his data, Khandker concluded that microfinance accounted for 40 percent of the entire reduction of moderate poverty in rural Bangladesh.

6.3.1 Impact Assessment Approaches

Impact assessment has been described as:

*The systematic analysis of the lasting or significant changes - positive or negative, intended or not - in people's lives brought about by a given action or series of actions.* (Roche 1999 p21)

6.3.1.1 Traditional approaches

**Outreach**

One of the major appeals of microcredit programs in the Third World is its potential for making credit available to large numbers of underprivileged people who are not well served by the traditional banking system. As such, program outreach can thus be assessed in terms of depth and breadth. The depth of outreach is generally measured by the program's ability to reach the poorest segments of society, and the breadth of outreach is assessed by the number of people who are provided financial services.

**Depth**

Although most microcredit programs have a mission to serve the low income population, many of them also have substantial numbers of clients who live above
the poverty line. For instance, Aspen Institute's study of seven of the oldest and most representive micro credit programs reveals that 62 percent of program participants were non poor (Edgcomb et al., 1996). ACCION, an international pioneer in micro lending, reports that about 87 percent of their clientele are non poor (Himes and Servon, 1998). Seventy-two percent of the clients of another major micro credit program, Working Capital, are reported to have incomes above the poverty line (Anthony and Smith, 1996).

**Breadth**

Limited scale is not just characteristic of new programs of micro credit; many well established programs also handle limited numbers of loans annually. According to an Aspen Institute study, for example, the average number of loans made annually by the seven leading micro credit programs in the US was about 72 (Edgcomb et al., 1996). Even highly experienced programs such as ACCION find scaling up a major challenge (Burrus and Stearn, 1997). During 1991-1996, each ACCION associate made an average of 200 loans per year. Given that ACCION is a credit-led program, and perhaps one of the most “efficiency conscious” programs, such statistics suggest that “younger” programs seeking to increase the breadth of their outreach will face serious challenges.

**Sustainability**

The potential for financial self-sufficiency is another major appeal of micro credit programs in the Third World. Although a micro credit program may require external financial support in its initial phase of operation, the program has a higher chance for long-term survival by increasing financial sustainability over time. Programs can increase their financial sustainability through various means: lending to individuals with better credit records, retaining good clients by “stepping up” loan sizes, charging higher fees and interest rates, or increasing operational efficiency in credit delivery and recovery. Programs may undermine their outreach to the poor by, say, distributing only larger loans to higher-income individuals. Nevertheless, a program
can increase financial sustainability without sacrificing outreach by gaining operational efficiency in credit delivery and recovery.

Rates of interest

mFIs adopt different approaches for fixing the interest rates or service charges on loans to members. While at the grassroots level almost total deregulation of interest rates has generally taken place, there are certain self-regulated interest rates fixed by intermediate and apex institutions and apex microfinance service providers. A study by EDA Rural Systems on select mFIs on the various conditions of providing microfinancial services revealed that interest rates for short to medium-duration loans ranging from 12 to 36 months were applied both on a flat rate basis, especially under Grameen replication models, and on a declining loan outstanding basis.

6.3.1.2 Recent approaches

Much research has gone into accessing the effectiveness and empowerment potential of micro credit programmes. Challenges of assessing and measuring the impact of microfinance on clients are not few. The challenge is to develop assessment systems that can reflect client needs and social and organizational context, while producing rigorous, comparable data for broader external analyses. More recently, there has been increasing agreement that impact assessment should be seeking not so much to analyze change and 'prove impact' as an end in itself, but in order to 'improve practice.'

Adapting a broader perspective on impact, assessments based on 'social performance' rather than 'poverty' alleviation or outreach have been advocated by Salma Akhter, Assistant Professor, Department of Sociology, University of Dhaka, Bangladesh. She recommends the need for organizations to be able to assess both their social performance - including their impact on poverty; and their financial

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1 Salma Akhter, Assistant Professor, Department of Sociology, University of Dhaka, Bangladesh. Impact assessment of NGOs micro-credit based women entrepreneurship: Methodological concerns
performance - the degree to which they are sustainable and/or cost-effective. This dual concern is referred to as the 'double bottom line'. This assessment is useful both for external stakeholders who may be investing in microfinance, and for organizations who wish to know what impacts they are having, and how this can be improved in ways that meet client needs.

A solution to this quandary in the shape of the Imp-Act social performance framework, which offers a preliminary means to systematically capture the various dimensions of poverty and of direct and indirect social impacts, while drawing on and reflecting local and organizational context has been suggested by Salma. She discusses the areas that such a framework would need to take into consideration, such as how information would be collected and reported in ways that are useful for clients and the organization and for external audiences; how learning systems would be institutionalized; and how impact data could be digested and acted on in ways that benefit both organization and clients.

Save the Children Fund framework

Save the Children Fund UK has developed framework for impact assessment known as Global Impact Monitoring (GIM), which focuses on impact as well as on the key processes leading to change, where analysis is based on child rights approaches which suggest that the SHGs have to be assessed in terms of Group dynamics like cohesion, vibrancy, goal-oriented action, participation of members, democratic decision and collective leadership. For the poor, particularly women, group membership of NGOs creates an extensive grassroots network and is claimed to empower them. Their new skills acquired through training and access to investment of capital from micro credit is supposed to change their status in community.

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5 Sejal Dand, Jitendra Anilharia and Linda Mayaux From 'Tree Of Dreams' To Empowerment Strategy: Participatory Action Learning, Networking And Impact Assessment in Amarkal, India
Assessment framework suggested by NABARD

For any financing institution, appraisal is very important for ensuring the utility of the loan and repayment of the loan. Bankers generally appraise the project and the borrower. In case of SHG financing, most of the project appraisal norms like assessing the cost benefit and profits will not be workable due to the peculiarities of SHG financing. For considering a loan application for financing the Financer has to evaluate the capacity and character of the prospective borrower. SHG's also being customers have to be appraised before extending credit facilities. But then assessment of creditworthiness of a SHG is very different from that of an individual. SHGs are not to be assessed in terms of their ability to provide collateral or guarantees of net worth. The SHGs have to be assessed in terms of Group dynamics like cohesion, vibrancy, goal-oriented action, participation of members, democratic decision and collective leadership. The appraiser has to see whether the group is functioning, actually as a group, why the members have come together, whether it is for obtaining loan from bank or the group sees other purposes, what is the group discipline and whether it is sustainable.

The basic principles on which the SHGs function are:

a) The members of the groups should be residents of the same area and must have an affinity. Homogeneity of relationship could be in terms of caste/occupation/gender or economic status (which is critical).
b) Savings first, credit thereafter
c) SHGs should hold regular meetings
d) SHGs should maintain record of financial and other transactions
e) They should have norms regarding membership, meetings etc.
f) Group leaders should be elected by members and rotated periodically
g) Transparency in operations of the group and participatory decision making
h) Rates of interest on loans should be decided by the group
i) Group liability and peer pressure to act as substitutes for traditional collateral.

For assessing a Self Help Group the important aspects that a financier should look into include:

A  **Norms for functioning:**

The SHG should have developed some kind of norms for its functioning the norms should be covering major areas of its functioning as well as the decision making processes, leadership etc., Norms generally relate to

- Membership
- Meetings - time, periodicity
- Savings - amount, periodicity, rate of interest (return)
- Credit - procedure for sanction, ceiling amount, purposes, rate of interest to be charged, repayment period etc.
- Fines - in case of default in attending meetings, savings and credit repayment. Group may also levy fines for any deviant behavior etc.
- Leadership - election or nomination of leaders, rotation of leaders etc.
- Personal/social improvement - minimum literacy level to be achieved, social work to be done etc.

The above norms may be written or oral. They may be decided in the initial meetings or they may evolve over a period of time depending upon the need of the group. The important aspect to be looked into are:

- How norms evolved, whether by the consensus of the whole group.
- Whether the members are aware of the norms (even if they are oral) and understand them,
- Whether the norms are implemented.
B Meetings

The group decides the periodicity of the meetings i.e., weekly, fortnightly or monthly. They also decide on the time of the meeting. Decision on time and periodicity helps in regular conduct of meetings. The regularity in the holding of the meeting and the attendance during meeting gives an indication about group functioning. Therefore a Financer should see whether:

- The meetings have been held regularly
- The attendance in the meetings
- The members are punctual and stay till the end of the meeting
- Are there any sanctions for the delinquent members?

The Financier can use his observations during the meetings and the meeting register to get data on this appraisal aspect.

C Maintenance of Books

Whether group is maintaining the basic books that will give details of its functioning and accounts of the group is an important criterion to be judged. The books should give the details of number of meetings held, decisions taken in the meetings, amount of savings of the members and credit availed, the total savings of the group and repayments. Who maintains these books is another important criteria for judging the group. Do members maintain it, if not are they making efforts to achieve basic numeric literacy so that they can start doing it themselves.

Financer has to verify:

- Whether details of meetings, proceedings, and attendance are maintained.
- Whether member-wise record of saving and credit are maintained.
- Whether the records are up to date.
• Whether all members are kept informed of their savings and credit balances from time to time.

• In case of illiterate groups whether what is the system followed, does the group verify the books maintained by NGO/outsider.

• Whether systems have been developed to ensure safe custody of cash.

D Leadership

Two or three group members are elected as leaders/ book-writers. Initially the opinion leaders may be the leaders and over a period of time they are expected to be take turns. The group leaders are expected to a) regularly convene and conduct the meetings, b) help the group members in taking decisions, c) resolve conflicts, d) maintain books of account and e) approach bank branch for operation of accounts. The aspects that are to be seen are:

• Whether the leaders have been elected and rotated

• Whether they help in democratic functioning of the group

• Whether there is a conscious attempt to groom other members to take up leadership

• Are they marginalising the benefits (especially loans)

E. Participation and Awareness of Group Members

Are the Members aware of the purpose of group formation, the operations and activities of the group viz. The savings and the credit of the group as well as the individual member's savings and credit details.

• Do they participate in group discussions and decision making

• Do they help solve the problem that are raised in the meetings

• Do they work cohesively and have transparent dealings
The democratic character of the group may be judged by attending one or two meetings and talking to individual members. The awareness level of members helps in healthy functioning of the group and resolution of conflicts within the group.

F. Savings

The group decides on the amount of savings as also its periodicity. It has to be seen whether the saving, as decided upon, is regularly made, how the defaults are dealt with and whether the system is modified as per the requirements of the members.

G. Credit

The following aspects to be looked into while assessing the credit function of the group:

- The decision making process of selecting loanes.
- The system followed in assessing credit requirement of individual members and the amount to be sanctioned.
- The system of monitoring the credit.
- The repayment performance of members and incidence of defaults besides the effectiveness to deal with such defaults; whether the concept of 'peer pressure' is working.

H. Self Reliance of the Group

Can the group function on its own without the support of the NGO is an important criterion for assessment? The level of dependency on the NGO/promoter of the group and impact of withdrawal of NGO/promoter on the group is to be assessed.
<table>
<thead>
<tr>
<th>S.No</th>
<th>Category</th>
<th>Criteria</th>
<th>Mark</th>
<th>Key</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Composition</td>
<td>Membership is homogeneous</td>
<td>10</td>
<td>The rating is based on the judgment of assessing official.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No homogeneity in membership</td>
<td>5</td>
<td>There is no need to evaluate an SHG if it is less than six months old (ignore marginal shortfalls up to 1 month)</td>
</tr>
<tr>
<td>2</td>
<td>Age Of The Group</td>
<td>One year and above</td>
<td>10</td>
<td>The total number of meetings conducted during the last 3 months may be divided by 3 to arrive at average no. Of group meetings.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Six months and above but less than a year</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Weekly Meetings</td>
<td>Four meetings per month</td>
<td>10</td>
<td>See explanation 1 at the end.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2-3 meetings per month</td>
<td>8</td>
<td>Peruse minutes book pertaining to meetings held during the last 3 months,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 meeting per month</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Attendance</td>
<td>More than 90%</td>
<td>10</td>
<td>Peruse minutes book (if rating is 10 for item 5)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Between 70% and 90%</td>
<td>5</td>
<td>Observe during a couple of group meeting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Less than 70%</td>
<td>5</td>
<td>Interact with members</td>
</tr>
<tr>
<td>5</td>
<td>Minutes Book</td>
<td>Written in detail</td>
<td>10</td>
<td>Step 1: Take the average no. Of members making saving during last 3 months,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maintained, but not in detail</td>
<td>5</td>
<td>Step 2: Compare this with the total no. Of members</td>
</tr>
<tr>
<td>6</td>
<td>Participation In Group Discussion</td>
<td>Participation by only a few members</td>
<td>5</td>
<td>Step 3: Majority mean &gt; 60%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Participation by majority of members</td>
<td>10</td>
<td>Step 4: For average no. Of meeting, follow rating given for item 3 above,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Note: Please see explanation 2 at the end.</td>
</tr>
<tr>
<td>7</td>
<td>Savings (Frequency)</td>
<td>4 times a month (by majority members)</td>
<td>10</td>
<td>Ascertain form group leaders and members in this regard also, peruse minutes book,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 times a month (but not by majority)</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2-3 times a month (by majority members)</td>
<td>8</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>2-3 times a month (but not by majority)</td>
<td>8</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>1 time a month day (by majority members)</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 time a month (but not by majority)</td>
<td>3</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Savings &amp; Loan Recovery (Mode Of Collection)</td>
<td>Collected in group meetings</td>
<td>10</td>
<td>Ascertain whether periodical elections are conducted for the leadership and whether all decisions are in group meetings and on democratic lines,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>House - to house collection</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Style Of Functioning And Group Decisions</td>
<td>Democratic and Transparent Decisions taken by few dominant member / members / group leaders</td>
<td>10</td>
<td>Peruse minutes book, Interact with members, Observe in few group meetings,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>Ascertain whether periodical elections are conducted for the leadership and whether all decisions are in group meetings and on democratic lines,</td>
</tr>
</tbody>
</table>

* Suggested by NABARD, MCRIL.
| 10 | Sanction And Disbursement Of Loans | Selection of borrowers in group meetings | 2 | Ascertain the position from group leaders/members. Peruse minutes book (Each item will get marks shown against it, if the conditions are satisfied) |
|    |                                | Sanction and disbursement of loans in group meetings | 2 |
|    |                                | Loan terms and conditions discussed in group meetings and recorded in minutes | 2 |
|    |                                | Utilisation of loans reviewed regularly in group meetings | 2 |
|    |                                | Recovery of loans reviewed regularly in-group meetings. | 2 |
| 11 | Interest On Slg. Loans | Uniform rate irrespective of source of funds | 5 | Peruse loan register. Ascertain from group leaders/members |
|    |                                | Different rates depending on source of funds | 3 |
|    |                                | Interest rates vary according to the purpose of loan | 5 |
|    |                                | Uniform interest rate for all purposes | 3 |
| 12 | Utilisation Of Saving For Loaning | Above 80% | 10 | Compare savings outstanding on a given date with loans outstanding on the same date to obtain the percentage. Nil mark for utilisation of savings below 50% |
|    |                                | Above 50% and upto 80% | 5 |
| 13 | Recovery Of Loans | Dues not recovered in respect of 10% or less of total no.of loan accounts | 10 | Even one installment unpaid without authorization by the group is treated as dues not recovered. Count such accounts and compare them with total no. Of loan a/c. Also, peruse minutes book for authorization for non-payment |
|    |                                | Dues not recovered between 10% and 30% of total no.of loan accounts. | 5 |
| 14 | Books of Accounts | Attendance cum minutes book | 3 | Each record / register, if maintained properly and up to date, will get marks shown against each. |
|    |                                | Savings Register | 3 |
|    |                                | Loan Ledger | 3 |
|    |                                | Bank Passbook | 1 |
| 15 | Bylaws / Group Rules | Known to all members | 10 | Ascertain from the member through interaction |
|    |                                | Known to most of the members | 5 |
|    |                                | Not known to many members | 0 |
|    |                                | TOTAL MARKS | 150 |

### 6.4 Issues Regarding Data

#### Availability and Requirements

The data generated by various microfinance initiatives are both quantitative and qualitative in nature. Data can be scrutinized on the basis of two factors:
Available data is the end product of an exercise of generation, collection and tabulation. Access to available data is mediated by the following factors:

- **Genesis**: The purpose behind the exercise throws light on how the data has been generated and collected.
- **Method**: A variety of methods and a combination of them can be used to collect the data that is pertinent to the purpose of the exercise. Data formats in particular are important in understanding the method.
- **Adequacy**: While methods can be evaluated individually for their consistency and correctness, their relevance to the genesis is also important. Data formats can be studied in order to assess whether the method/s used are adequate for the original purpose or not.
- **Gaps**: Ascertaining the level of relevance and adequacy of data available automatically leads to identification of existing gaps in the available data. These gaps could emerge at any of the above levels, and could be due to a lack of clarity about the purpose of data collection, methodological shortcomings or inadequacies in data format/s. If there are gaps in the available data and inadequacies in the existing exercises, the data will fall short of enhancing an understanding of the intervention and its dimensions.

**Two Approaches to Data Issues**

Data issues with respect to micro-finance emerge in as many ways as purposes for which data is collected. Both quantitative and qualitative data should be examined for their availability and their relevance to the requirements of a specific micro-finance initiative. This can be approached through either of two methods. The first method traces data through the institutional mapping in the credit delivery system and is called the 'vertical approach' to data issues. This approach illustrates how the
initiative of micro-finance is carried out. The data points to the socio-economic health and performance of the various participants within the institutional mapping.

The second method is to trace data through the contextual mapping of the conceptual rationale of micro-finance, through the intervention, to the impact that this effort has had on the lives of clients. This method is called the 'horizontal approach' to data issues. This approach matches impact evaluation studies with the philosophy behind micro-finance and helps to ascertain whether the ends have justified the means.

**Clients/SHGs-Clusters-Federations**

Clients are reached through SHGs. Certain intermediaries are involved in not just the formation and nurturing of SHGs, but also in organizing them to form clusters and federations. The DHAN Foundation in Tamil Nadu and the FWWB in Gujarat are such institutions. The data on this account is largely available with the institutions and is both qualitative and quantitative in nature. Data on individuals as participants is usually collected through impact evaluation studies. However, case studies of MFIs, of facilitating NGOs, and of the intervention of micro-finance per se, also include case studies of individual clients, which have benefited from the use of micro credit. In the process, the socio-economic profiles of the individuals are documented and their experiences about availing of, using and repaying loans are documented. It must be noted here that the documentation is largely of 'success' stories, and cases that have failed to benefit from the intervention of micro-finance are rarely recorded.

**Judgemental Data**

Data related to the vertical approach also takes the form of being judgemental in nature. In fact these are the most significant types of data that exist in the intervention of micro-finance. Data which 'judges' is necessary to the intervention because, on the one hand there is no one model that can be deemed as 'ideal', and on the other hand,
there is a need for some kind of consistency in the effort because the core needs of the poor are similar. Consequently, there are efforts to gather data that will throw light on the need for standardization, for regulation, for monitoring, etc.

**Micro-Credit Ratings India Limited (M-CRIL)**

The most important of these kinds of data, is the rating that is undertaken on the basis of the financial performance of the MFI. Over the past two and a half years, Micro-Credit Ratings India Limited (M-CRIL), a limited company established to facilitate the flow of commercial funds to the micro-finance sector, has undertaken credit ratings of about 70 MFIs in South Asia. M-CRIL has compiled the information from its rating studies into a database and used it to analyze the performance of the micro-finance sector in the region. Over the period September 1998 to November 2000, M-CRIL had completed 53 rating assignments, covering India, Nepal, and Bangladesh. MFIs are disaggregated by the methodology they adopt to function and by their age. They are classified by virtue of their methodology into

- Self-Help Group;
- Individual Banking model;
- Grameen model

According to their age they are classified into

- New institutions, which are less than three years old;
- Maturing Institutions, which are between 3-7 years old and;
- Mature Institutions that have undertaken micro-finance programs for more than 7 years.

**MFI Database**

The MFIs in the database have also been classified by the size of their outstanding portfolios at the time of the rating field visit. The sample by portfolio size shows that there are a few large MFIs and many small ones. As per the regional distribution of

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7 *Women’s Access To Credit And Microfinance In Rural India*
MIs in India the south predominates but the west is also significantly important. M-CRIL awards grades to reflect the creditworthiness of the MFI. The data shows that relatively few MIs are creditworthy enough to borrow money in excess of Rs. 2.3 million. Based on indicators of ‘best practices’, data includes client outreach, productivity, efficiency, portfolio management of the MFI and financial performance. The top ten averages indicate that best practices are being followed in the concerned region. M-CRIL’s ratings are intended as a direct service to lenders by providing them with an informed opinion of the credit worthiness of the MIs.

All ratings undertaken use a rating instrument that has been especially developed for the assessment of MIs. The instrument consists of a series of indicators that measures organizational and governance aspects, managerial and resource strengths, and financial performance. The indicators and standards for scoring on each indicator have been arrived at after an intensive process involving field-testing of the instrument, discussions with the experts and MFI leaders, literature survey and consultative meetings with the MFI support institutions that have made pioneering efforts in the area. Each indicator has a weight attached to it and is measured on a 0-10 scale. The weights are used to compute the rating score for each indicator to arrive at a percentage score that determines the overall risk profile of the rated MFI.

In addition, the rating instrument also evaluates the performance of the MIs against minimum conditions. These conditions have been developed after an extensive analysis of M-CRIL’s MFI data base and constitute some of the most crucial performance indicators. Meeting these conditions is essential for the MFI to achieve a given rating grade. An important component of the methodology is to construct appropriate financial statements for the micro-finance operations of the MFI. This involves making detailed calculations of the various financial account heads.
Standardization

The components of financial and non-financial standards for both institutions and the program are relevant to MFIs and facilitating organizations that are devoted to capacity building. According to the guidelines, the parameters both non-financial and financial should be selected so that they can be verified. These are parameters against which standards will be set. Parameters are verified by studying the indicators that show whether standards are achieved or not. It is important to identify those documents and records that have to be maintained by the participants so that the standards can be checked.

Finally, the strategy and process to enforce the standards need to be developed. The non-financial standards include governance, management practices, human resource management, track record of borrowing, relationship with community, local agencies, etc, outreach and impact, program design and external program. The financial standards include the track record in terms of repayment, financial performance, financial control system and accounting and reporting. Each of these factors listed above is linked to appropriate parameters, which have to be traced in order to set the best practices standards.

Micro Banking Bulletin

The MicroBanking Bulletin is one of the principal outputs of the MicroBanking Standards Project, which is funded by the Consultative Group to Assist the Poorest (CGAP). The purpose of this project is to

- Collect financial and portfolio data provided voluntarily by leading MFIs;
- Organize the data by peer groups;
- Report this information;

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* MicroBanking Bulletin is one of the principal outputs of the MicroBanking Standards Project, which is funded by the Consultative Group to Assist the Poorest (CGAP) in UN
• Help through this database MFI managers and board members understand their performance in comparison with other MFIs;
• Establish industry performance standards;
• Enhance the transparency of financial reporting;
• Improve the performance of MFIs.

The Project seeks to provide customized financial performance reports; the MicroBanking Bulletin; and network services. Resultant “Best Practices” The available data points to areas in which improvements can take place. “Best Practices” have been outlined with respect to each of the above facets of the participants of microfinance in the context of SHGs and their functioning.

BASIX model

BASIX has formulated a method of awarding scores while assessing SHGs. The interviewer has the choice of awarding the score within a range depending on the answer given. SHGs are hence rated as very good, good, satisfactory, and not good. At the ARAVALLI-FWWB Workshop on Microcredit, certain parameters were outlined and deliberated upon which set standards for SHGs. These were:

• Vision, mission and goal;
• Size of SHG;
• Group composition;
• Meetings;
• Attendance at meetings;
• Participation of members in decision making;
• Participation of members in responsibility sharing;
• Rules and regulation;
• Savings;
• Sanctioning of loans;
• Loan repayments;
• Rotation of common fund;
• Idle capital; Resource mobilization;
• Book-keeping and documentation;
• Audit training programs;
• Planning, implementation, monitoring and evaluating programs;
• Social action and community action program and education, literacy and numeric knowledge.

Generally, Best Practices are in the areas of SHG formation, nurturing, organization, financial management of the participants, especially the MFIs and SHGs, training of members vis-à-vis financial management, etc. *There do not seem to be any outlined “Best Practices” to capture gender dimensions within micro credit interventions.* Perhaps this is so because by and large the SHGs comprise of all women groups and it is assumed that issues related to them will automatically surface in the enumeration of other parameters. In reality however, this assumption subsumes gender-related problems. Even if the groups are all-women, the lives of women are not limited to their identities as members of SHGs. Household dynamics spillover and affect functioning within and of groups. Further, as a class, women suffer from discrimination in the community.

### 6.4.1 VERTICAL APPROACH

Data that is generated points to the supply-side factors involved in the intervention of micro-finance. There is however a need also to document the factors that determine demand within micro-finance. *Only when the supply and demand factors are studied together, an evaluation can be made of whether the intervention has been successful.* In as much as there is a mismatch between demand and supply, the primary goals of the intervention *per se* in terms of poverty reduction and empowerment of women will be at stake. In such a case, there will be a need for modifications, improvements and changes in the methods of micro-finance. The demand factors need to be observed from the perspective of *all* the participants since each of them has requirements that have to be correspondingly matched with the supply. The data on
supply reflects information about products, services, capacity building, asset building, and training. The demand factors will similarly reflect the needs of participants in the context of these parameters.

The second and equally important data requirement of the vertical approach is to have data formats that are gender-sensitive. There are parameters and indicators which, if used, will succeed in recording gender biases and also track changes both positive and negative in them.

Since the second purpose outlined by the Summit is to empower women, it is necessary for data collection efforts to build-in variables that address change in women's lives from is empowerment to empowerment. It is not enough to leave the task of tracking change to impact evaluation studies since their assessments are made after a lapse of time during which gender related change has not been documented. Similarly, the vertical approach needs to include qualitative and more detailed indicators of poverty.

Micro credit has been primarily aimed at economic poverty. However, social poverty and gender discrimination are intimately connected with economic poverty, which is why development initiatives that address only economic poverty do not succeed in pulling the poor out of the poverty trap. This is not to underestimate the capacity of livelihoods, income and assets in improving the quality of lives. If one goes back to the fourth purpose mentioned in the Summit of having a measurable impact in the lives of clients, such an impact is seen by existing data in the narrow sense of increase in livelihoods and incomes, which in turn are responsible for increases in self esteem. It is however, important to as-certain whether an initiative that is narrow in scope as is micro credit, also has an effect in shifting positively, social poverty and gender discrimination indicators.
6.4.2 The Horizontal Approach: Conceptual Mapping

The second approach to data issues within micro-finance is through what has been called the 'horizontal approach'. This approach focuses upon the linkages between the conceptualization of micro-finance, the intervention and the impact of that intervention and is called the 'conceptual mapping'. The linkages are studied so as to determine whether the impact has justified the intervention and has ratified the conceptual premises on which the intervention is based.

**Conceptual Premises Intervention Impact**

The conceptual premises are given by the four core themes of the Micro credit Summit:

- Reaching the poorest;
- Reaching and empowering women;
- Building financially self-sufficient institutions; and
- Ensuring a positive and measurable impact upon the lives of clients and their families.

The 'intervention' has been highlighted by the institutional mapping and the corresponding data that has been generated in that context. The impact of the intervention cannot be understood unless one focuses upon many Impact Evaluation Studies that have been conducted by various organizations. The IES constitute the judgmental data relevant to the horizontal approach. The recommendations also dovetail towards contributing to resultant best practices about the functioning of NGOs and MFIs.

For any IES, the first question to be answered is the purpose of the study. Most often the study is conducted by an NGO/ funding organization, or academic/re-search institution. The reasons for under-taking an IES can vary from the need for policy formulation/modification within the organization, to wanting to assess the changes in the lives of the clients, to influencing policy makers, practitioners and researchers.
on the basis of the findings, or a combination of these. Again IES may be conducted
by the staff of the concerned organization, or by an external consultancy
firm/consultant. Particularly important are the methods used in IES.

It is seen that almost all the studies definitely have a combination of methods and do
not rely on one method only. This combination is mostly one of purposive sampling,
where the respondents are administered structured Questionnaires; selective
sampling of beneficiaries whose case studies are documented, and focus group
discussions where issues are brought out into the open. These methods are in stark
contrast to the Participatory Rural Appraisal (PRA) methods that recruit local
persons to appraise. While the value of PRAs cannot be denied, it is not always
possible for institutions that require IES to find suitable local persons to conduct
PRAs. This is especially true if the study is being conducted by an ‘outside’ agency
which does not have an intimate rapport with the village(s) under scrutiny.
Whatever be the method, it is important for researchers to be focused about
hypotheses and variables that are being sought as reflections of ‘impact’. The
difference between variable, parameter, and indicator should not be blurred over.

**Recommended Approach to Assess Impact of Intervention on Poverty and
Empowerment**

*The IES must seek information as to whether the level of poverty of the
household/client has been affected.*

In order to have a clear picture of this variable of ‘reduction in poverty’, first the
study must evaluate the level of poverty of the said respondent before any loan was
taken. A different set of poverty indicators can be used only if the IES seeks to
challenge the relevance of the initial poverty indicators used by the MFI to target its
beneficiaries. Most IES ask questions about income levels, assets owned by the
household, occupation(s), etc. However, in existing IES the structuring of the
differences between the variable, the parameter and the indicator are not sharp. It is
important to differentiate between the variable, which is ‘a possible reduction in the level of poverty’, and the parameter which is the level of poverty after micro credit. The indicators have to be selected with care after scrutinizing the poverty measure used to identify the beneficiary. These indicators can be related to economic factors such as income and assets, but they could also relate to food, nutrition, health, housing and education. Here, the purpose of the loan is significant.

Most studies presume that the loans are for income generation purposes. In fact, the demarcation between ‘productive purpose’ of loans and ‘consumption purpose’ (assumed to be non-productive), presume that the impact has to be only economic in nature, further implying that poverty is related to income. However, it has been argued that a loan for consumption, especially for food, is actually a loan towards working capital since it is used to maintain and enhance the production factor labor. It also belies women’s contribution towards the production of human resources, which entails providing for the ‘consumption’ of her family. This in fact, a productive activity and the loan that contributes towards this end is also automatically used for a productive purpose, where the consumption could be of food, health, education, etc. Poverty is also contextually relevant to the place that is being scrutinized. The larger socio-cultural environment within which the beneficiary is placed is important if the question of poverty is to be understood in its local dimensions. While there may be a general measure for rural poverty that is relevant across the country, there are also regional specificities that have to be built-in while selecting indicators to study poverty. States within the country differ economically, socially, culturally, politically and geographically. It is important for IES that span their study across different states to keep the contextual reality in mind and thereby alter the indicators even if the parameter and variable they are examining are the same. For example, the indicators of poverty in Kerala and those in Bihar will be different even though what are being ultimately trapped for data are levels of poverty.
The IES should specifically address the issue of empowerment of women. The gender dimension is very prominent when the intervention of micro-finance is discussed. This is because the initiative is directed, in most cases, towards poor women. Even in cases where the initiative is gender-neutral more than half the beneficiaries are women. One of the core themes has been the empowerment of women. Consequently, IES do attempt to gauge whether there has been any change in the lives of women that will indicate empowerment of any kind. Questions are asked about whether women can perceive changes in their status regarding their families and the community at large. Here again one finds that there is a blurring of parameter and indicator. The variable to be traced is the ‘empowerment of women’. The parameter is the change in status vis-à-vis the family, community, etc. The indicators have to be further specified in the context of the lives that the women in the concerned area are living. Again, the cultural contexts being different in each case the indicators cannot be uniform across the country. These indicators could be

- Participation in decision making in the family, in public life, in community programs, etc.
- Mobility of women,
- Participation in economic activities outside the house,
- The capacity to educate girl children,
- The capacity to decide about family planning,
- The capacity to determine the age of marriage of the daughter,

These are some of the indicators that can be used to measure an increase in the status of women, thereby indicating an empowerment process. The understanding of empowerment in existing IES is vague and general. The gender dimensions that cause intra-household disparities among members in access and control of resources and distribution of work, are not accounted for in the studies. Credit is seen as a tool of empowerment, but exactly how this ‘empowerment’ is supposed to take place is not clear.
Consequently, when IES search their beneficiaries’ lives for empowerment, it is seen as reflected in the capacity to take, repay and use a loan. Unless the method of IES delves into the household and the dynamics amongst male and female members, the reality of empowerment will not be understood. There is already evidence that indicates that micro credit can cater to the practical gender needs of women and not to their strategic needs. While structured schedules can be used to capture socio-economic profiles, it is the detailed case studies that can go beyond documenting an account of the beneficiaries’ lives. Just as for poverty, the issue of empowerment contains a ‘before’ and ‘after’ perception that actually implies a documentation of a process.

Participatory methods are more suitable for such documentation. The participant could be a local villager or else a researcher who spends a considerable amount of time in the concerned area observing respondents. Further, the perceptions of women are in themselves documentation of processes of empowerment. Changes in perceptions also serve as indicators for changes in status at various levels-economic, social and cultural. The value of self-perception lies in the fact that ultimately empowerment takes place when there is a widening of metaphysical mental space due to the widening of economic, socio-cultural, political and physical spaces. Due to micro credit and the successful use of loans and repeat loans, there could be an increase in income of the household. But this could not necessarily spell empowerment for the woman. Decision making about how that income is to be utilized, may still not rest with her. However, if the loan can generate a feeling of confidence that is enough to motivate her to voice protest only then can the credit be said to be instrumental in empowerment. There is no linear relationship between micro credit and women’s empowerment.

Similarly the membership of the SHG generates processes that are political in nature. The nature of group dynamics can unleash forces that are empowering to some and demoralizing and disempowering for others. In as much as membership in the SHG
instills a feeling of solidarity and strength, the woman will feel a sense of empowerment. Again the community's opinion of her is of tremendous consequence to a rural poor woman. When the process of availing of and repaying a loan generates a positive community response, socio-cultural spaces widen and cause an expansion of metaphysical space in the woman's mind. Lastly, mobility is a function of socio-cultural norms and is contextually different in parts of the country. In the relevant context, physical mobility and the use of body space can be used as an indicator to capture the parameter of physical space.

Recommended Approach to Assess Methods of NGOs

It is imperative for the IES to ascertain whether the concerned mediating NGO has managed to really reach the 'poorest'.

Existing literature on micro-finance interventions highlight the fact that while it is the poorest that have to be reached, often it is not easy. The transaction costs of reaching the poorest are very high. Further, the poorest do not have the capacity to absorb credit, especially credit meant to generate income through the starting of small enterprises. Again here it is very important for IES to pay attention to the poverty measurement indicators used by the participating NGOs in identifying the poorest. There should be a consistency in the measurement used even while it encompasses the local context of poverty. If attention is paid to this factor then the IES can ascertain the extent of the impact of the program and the efforts of the NGO. The effect on the poorest will be different from that on the poor and on the not-so-poor. Hence the IES should first determine which segment of the population has benefited from the initiative. This finding will be of particular relevance to policy makers.

IES should try and match the inputs of ‘best practices’ with the actual functioning of the NGO in determining the impact upon the clients.

IES enter the field with a presumption that the concerned MFI/NGO has performed to the best of its ability. While this may be true in spirit, the actual performance of the
organization has to be matched by the best practices outlined in various contexts. The value of such an exercise lies in the fact that best practices deal with the supply side of the intervention and IES trace the demand requirements of clients in the same directions - loans, repayments, interest rates, training, capacity building, group formation, conflict resolution etc. In as much as the study can fathom whether best practices are being adhered to, the IES can locate matches and mismatches of demand with supply. Many IES have used different research methods to examine not only clients but also the corresponding NGO. However the questions that are raised do not locate themselves in any way that will assist in the study throwing light on whether the NGO actually delivers what is wanted by the client, and in what way are the best practices proving to be really the best ones to be practiced.

IES should be willing to experiment with new conceptual tools that could assist them to capture poverty sustainability and empowerment in more relevant ways.

There are conceptual tools available that can lend new dimensions to the search for the impact of micro-finance programs on client's lives. For example, it is important to build in the concept of the life cycle of the household and of the client while considering the purpose for which the loan is taken. A 'young' client/household will have different requirements as against a mature one. Again, the concept of the 'credit limit' is useful in studying the constraints that the borrower has to face while availing a loan. Somewhere, underlying all IES, is the presumption that the funds for lending and the funds available to the borrower are perennial. But in reality it is not so. There are limits to both. From the borrower's point of view, the credit limit is the maximum that the lender is willing to lend regardless of the interest rate that the borrower is willing to pay. Studies rarely incorporate lending and borrowing constraints into their frame-works. The concept of social capital is also well worth investigating for use in IES. Since the initiative of micro-finance deals primarily with the building and fostering of relationships and trust between the participants, the
concept of social capital could be operationalized and used in the field to be able to ascertain the extent of success of the implementation of the concerned program.

Recommended Sample of Questions to be Included in an IES

**Questions relating to client (Woman)**

- **Identifying Characteristics:** Name; address;
- **Socio-Cultural Profile:** Marital status; caste; religion, type of family
- **Economic Profile:** Income, assets (tangible and non-tangible), skills for income generation
- **Membership of SHG:** When, how, status within SHG; relationship with other members; relationship with leader; experience within SHG; skills developed at book-keeping, savings, thrift, dealing with banks, etc; experience of attending meetings.
- **Membership within community:** Status within caste group, neighborhood; involvement in community development initiatives outside of micro credit.
- **Membership within kin and family:** Status as entitled by social norms, position in family hierarchy,
- **Membership within household:** Relationship with husband, with children, say in decision making about important issues related to household.
- **Micro credit:** Savings, loans, repayment, use of loan, how it was used, who decided, how it is repaid, who takes the responsibility of repayment.
- **Perceived experience of client after micro credit:** (Since it is not possible to document a ‘before-ongoing-after’ situation unless one has a participatory observer over an extended period of time, only self-perceptions can be documented)
- **Changes in relationships within SHG, community, neighborhood, kin, family, household.** These changes can be in terms of increased mobility, increased vocal expression, increased feeling of confidence, self-esteem. Questions could relate to significant decisions that were taken by the client, which would not have been possible earlier.
• Question relating to mobility of client due to participation in group activities. The perception of the woman client is to be compared to the pre-constructed concept of empowerment that the study adopted. In this comparison the local relevance and contextual realities will emerge.

Questions relating to SHG

• The genesis of the SHG: The processes through which it was formed, factors of motivation, factors that sustain the group.

• Intra-group relationships: The interaction among members, the democratic/non-democratic nature of the group, how leaders are chosen, the political nature of the processes within the group

• Inter-group relationships: The relationship of the group with other SHGs, is there a learning process generated among groups, is the relationship competitive, do groups which are diverse, say caste-wise interact and learn from each other.

• Relationship of group with NGO: Is the relationship one as of parent-child, is there a weaning-off process, is there a special relationship with the field worker in particular, what is the nature of that relationship, are there more expectations from the NGO, does the group think they will be met.

• Functioning of group: Does the group function adequately, is more training required, make a comparison with best practices, check relevance of best practices for the particular context.

• Relationship of group with banks/lenders: Are the bankers seen as culturally/class-wise alien to the group, is there sensitivity to poverty and gender issues among the bankers, what are the expectations of the group from the bankers, are these met, does the bank reach them literally and metaphorically.

• Relationship of group with community: How is the group perceived of within the community, what does the village/community expect from the group, does the group think it can/will fulfill these.
* Relationship of group with other political processes: Is there any interaction between panchayati raj bodies and the group, what is the nature of that interaction, is there any interaction of the group with political parties, what is the nature of that interaction.

Recommended Methods to be used in IES

There is no singular method that can be identified as the perfect method. The researcher should check if the method is adequate to capture the dimensions of the intervention. Where the impact of the NGO has to be traced, it is necessary for the NGOs performance to be presented. This performance should be Self-generated data by the NGO. This data will highlight the supply side of the intervention. The demand side should contain questions directed to the client but which are parallel to those that emerge in the supply side of the NGOs performance. For example Those related to terms and conditions of credit availability, Interest rates, training, Capacity building, formation and working of groups, etc.

Structured questionnaires are the most convenient method of gathering data that reflects profiles. However in order to gather information about perceptions, in-depth interviews, PRA, participatory observatory methods are more appropriate. Care should be taken in case studies to ask questions that will provide information about previously selected indicators for poverty and empowerment. Otherwise the case studies are reduced to being detailed, descriptive, verbal photographs.

The indicators of poverty and empowerment that IES use should match those that the MFI/NGO used to locate disempowered poor individuals for group formation.

  * Poverty should be addressed by IES in its economic and socio-cultural dimensions. IES need to have a holistic understanding of the process of empowerment.
Empowerment of women has to be conceptualized as a process and not as a goal. IES indicators should build in a time dimension that captures change.

Empowerment of women is largely related to an expansion of mental spaces that allows them to effect change in their lives. Mental spaces can expand when physical, economic, socio-cultural and political spaces expand.

6.5 Regulatory issues and bodies

Regulatory bodies like the Reserve Bank of India and NABARD, perform the role of officially regulating micro-finance interventions and providing directions for policy. The RBI sees the provision of microcredit by banks as an important instrument for poverty alleviation, particularly in the rural areas, as it raises the productive capacities of the beneficiaries. In keeping with this philosophy, in February 2000, banks were advised to make microcredit an integral part of their corporate credit plan.

Since then microcredit is reckoned as part of the banks' priority sector lending. Separate data about credit flow to women is to be generated by the banks and quarterly reports submitted to the RBI, which will create a separate database for women. Data are to be collected separately for microcredit, for credit to the small scale, medium scale and large scale industries.

Already, most banks have started collecting data, as required, from the branches, on a periodic basis. The data is consolidated at the head offices. A 14-Point Action Plan, which concerns credit for women, was outlined for implementation by banks. By the end of the first year of the implementation of this Plan, factual data would be available on the number of women financed, the amount of credit flow extended to women as also the percentage to net bank credit. It is recommended that the RBI should prescribe a special format for data collection from the banks so that the data is
available separately for amounts advanced to women entrepreneurs for micro credit, for small/medium/large scale industries.

The regulatory body is primarily the Reserve Bank of India. NABARD also performs a regulatory role, although this bank features among the suppliers of bulk credit too. The apex bodies, also called the wholesalers, are those who supply bulk credit for on-lending purposes.

A research study\(^\text{\textsuperscript{10}}\), unravels the features of a self-regulatory mechanism in micro-finance in India. The sequel to the report of the National Task Force on Supportive Policy and Regulatory Framework for Micro-finance, had suggested the need to encourage the development of a self-regulatory mechanism and had also defined some of the broad parameters under which such a regulatory mechanism could be given shape. The above study after researching into the existing micro finance scenario, recommends that regulation should not be left to the market nor to the government. The role of the government is seen as one that provides an enabling environment and does not proactively direct and control the activities of the participants.

The potential objectives and benefits of self-regulation lie in

- Protecting the depositors,
- Offering saving services,
- Gaining access to refinance facilities,
- Lower refinance costs,
- Enhancing the image of the sector,
- Helping MFIs build capacity and improve performance,
- Pre-empting regressive government intervention.

The report lists the participants that should come under self-regulation as—the SHGs; the Federations of the SHGs; NGO MFIs; NGO facilitators; Co-operatives; other

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\(^{10}\) *Micro-finance Regulation in India* (Sa-Dhan, 2001)
formal MFIs like banks, NBFCs, and LABs. The Self-Regulatory Authority (SRA) is expected to verify if the MFIs are really serving the poor, set accountancy rules, reporting and disclosure requirements, establish prudential norms and performance standards, and accredit the complying MFIs. It is also expected to give credit ratings and provide deposit insurance financed from contributions of members.

The study recommends that even if regulation norms and standards are established by the MFIs themselves, supervision must be done by an independent institution. (Sa-Dhan, 2001).

Accounting Systems which generally include

- **Cash Books**: Meant to record each cash transaction as it occurs in a meeting;

- **Member Ledger Book**: A document that is derived from the cash book which may be used to keep track of the current balance of each individual member in the group—her savings, loans taken and repayments;

- **Pass Books**: These are given to individual members to record their individual savings and loan status. In new groups, introducing pass books often encourages members to save more as they have a personalized document of their net savings amount;

- **The Minutes Book cum Attendance Register**: Used to record the proceedings of each meeting and the names of members present.

- **Loan and Repayment Forms**: To be filled each time a member takes a loan. Each form has details of the loan amount, the purpose for which the loan has been taken, the frequency of repayment and the amount of each installment.

- **General Ledger**: To be maintained along with the member ledger for receipt and payment transactions, common to the whole group. (The Savings and Credit Manual, PRADHAN, Resource and Research Group, 1998)
The performance of the SHG is also documented using indicators that are seen as relevant to the situation and region or the variables documented and tracked are those which constitute the operational requirements of the intervention of microcredit. For example, the Cooperative Development Foundation (CDF) in Hyderabad, records performance with the help of the following indicators:

- Number of members;
- Number of Thrift Cooperatives;
- Association of Thrift Cooperatives (number);
- Regular Thrift (Rs.);
- Thrift Defaulters (number);
- Thrift Default Amount (Rs.);
- Members with recurring deposits (no.);
- Recurring Deposits (Rs.);
- Members with savings accounts (no.);
- Savings (Rs.);
- Members with fixed deposits (Rs.);
- Fixed deposits (Rs.);
- Members in DRAS 15 (no.);
- DRAS deposits (Rs.);
- Other funds (Rs.);
- Total own funds;
- Borrowings (Rs.); Borrowers (no.);
- Loan outstanding (Rs.);
- Loan defaulters (no.);
- Loan default amount (Rs.);
- Average membership in a cooperative (no.);
- Average thrift per member (Rs.);
- Average loan outstanding (Rs.).
• Loans disbursed during the year (Rs.);
• Number of loans given during the year (Rs.);
• Average loan size during the year (Rs.)

Why Regulation and Supervision of mFIs? 

Credit, even though accompanied with other social development functions, is a commercial activity which can be prone to all types of human caprice and misdeeds. Being part of the financial sector, the need for regulation of NGO-mFIs to protect the poor from some institutions of doubtful credibility, as also poor fund management capabilities can hardly be questioned. On the other hand regulation could also stifle the growth of mF sector and rob it of its flexibility and informality in operations. But, having regard to the interests of the small savers, the need for proper credit discipline for the growth of this sector, such regulation of mFIs is considered essential.

Even with malafide intention, the need for regulation from the point of interest rates, terms of credit, etc. became impertinent. The mFIs also need to observe financial discipline, whether self-imposed or dictated by the state, for sustainability of their microfinance operations. Further, under the Usurious Loans Act, 1918, even the persons carrying on business of money-lending have to obtain license from the appropriate authority. It is quite logical that NGO-mFIs also are brought under some regulation to witness orderly development and sustained growth.

NABARD has been authorized to supervise RRBs and cooperative banks on behalf of RBI. Regulation and supervision of the formal banking institutions is well organised under various Acts, viz. B R Act, RRBs Act, Cooperative Societies Acts, and RBI Act. While RBI supervises commercial and urban cooperative banks and NBFCs, Only NBFCs and cooperatives most of them being registered as societies or trusts, the

Adapted from NABARD Website: www.nabard.org
question of their supervision and regulation from the financial angle had not arisen. Except submission of annual accounts and a report on their operations to the authorities under the Acts of their registration, these agencies are not under any statutory compulsion to comply with specified norms or instructions in respect of their MF activities encompassing mobilization of savings and granting of loans.

MFIs in our country are presently registered to function as non-profit organizations either of three act

1. Societies under the Societies Registration Act, 1860 or analogous State Acts
2. Public Trusts registered under the Indian Trust Act, 1882
3. Non-profit companies registered under Section 25 of the Companies Act, 1956

Few states have enacted their own Societies Registration Act, e.g., The Karnataka Societies' Registration Act, 1960, The Bihar Societies Registration Rules 1965 and the Tamilnadu Societies Registration Act, 1975. In certain states like Maharashtra and Gujarat, there is a Public Trusts Act. Under the above Act, it is obligatory for the institutions that are of the nature of Public Trusts to get themselves registered. Further, in the state of Maharashtra, if a non-profit body is registered as a society, then it is obligatory to register the same under the Public Trusts Act also. Such dual registration under the Societies Act and the Public Trusts Act is generally required in places where the State Public Trusts Act is in vogue.

The Societies Registration Act was basically enacted to formalize voluntary associations of like-minded people for promotion of literature, science, fine arts or for the diffusion of useful knowledge, political education or for charitable purposes. With the passage of time, the field of social and developmental interventions has widened, and a large number of such institutions with a wide range of objectives directed towards social and economic upliftment of the people in the lower strata of the community have started functioning. Some of these organizations, as part of their
overall objectives, have started providing certain types of financial services in a limited way.

Many of these organizations have been registered long back and do not even have any mention of provision of savings and credit services in their objectives clause. Reservations have been expressed at times in certain quarters whether the agencies registered under these Acts can undertake mobilisation of savings and credit disbursement as lawful activities, although such activities are targeted to the classes of people whom they are expected to serve. On the one hand, the agencies are apprehensive of the legality of their financial intermediation activities, while on the other a question remains about regulation and supervision of such financial activities.

Lately there has not only been a general acceptance of the work of such agencies (NGOs) as microfinance institutions for delivery of financial services to the poor, particularly women, but also many of such initiatives have been publicly lauded and other NGOs encouraged to take up similar mF activities. Certain departments of the GOI and state governments are using NGOs as channels for delivery of financial services in tandem with various development programmes. The Ministry of Human Resources Development, GOI, has also accepted the role of NGOs in providing microfinance and has written to the state governments to assist NGOs in the amendment of their bye-laws to facilitate borrowings for further on lending.

Under the SHG-bank linkage programme also, lending to NGOs for further on-lending to SHGs has been recognized as a legitimate financial intermediation activity of the NGOs. It is, therefore, felt that through various actions of the GOI and RBI, there are sufficient indications of the acceptance and recognition of the role of NGOs and other voluntary agencies as mFIs.

Although most of these agencies accept periodic savings only from their target clientele to whom they have sanctioned loans, there may be cases, at least at certain
points or phases of operations, when the accumulated savings of all or certain members are higher than the aggregate loans availed by them. As experienced so far in the MF sector activities, savings would be an important component of the financial services provided by them. Therefore, there is an imperative requirement for protecting the interests of all the small savers who, quite often, may not even have any worthwhile document to show as proof of their meager savings.

Significantly, a large number of donor agencies have shown interest in supporting MF activities through SHGs or other types of delivery mechanisms. In the entire financial sector, MFIs comprising institutions of the NGO family are the only ones, which are outside the purview of any institutionalized system of reporting. It is, therefore, necessary to have a reporting system that enables the RBI and the GOI to have a complete picture of the microfinance scenario in the country including, inter alia, the agencies involved, the direction, volume, and sources of the flow of funds through these agencies, and terms of financial transactions including interest rates, loan periods, etc.

Self-regulation can play an important part in the regulation of microfinance institutions, most of which have their roots in voluntary service. self-regulation brings standard and acceptable level of performance, service and code of ethics for the members while ensuring spontaneity and involvement of the institutions in compliance of various statutory provisions; it also minimizes the cost of overseeing the operations by the statutory authority; and there can be a division in the area and powers of regulation whereby statutory authorities may concentrate on the broader aspects of regulation leaving the rest for the self-regulating authorities. Self-regulation could perhaps be the best mode, but it may take some time for such a mechanism to evolve.
Classification of mFIs for the Purpose of Regulation

Based on the type of financial services extended and the cut-off level of business, the mFIs may be divided into the following classes for the purpose of regulation:

1. mFIs purveying credit only;
2. mFIs purveying credit and mobilising savings from the clients/loanees (below cut-off limit);
3. mFIs purveying credit and mobilising savings from the clients/loanees (above cut-off limit); and
4. mFIs purveying credit and mobilising savings from the clients/loanees and general public.

The classification as suggested above may be the basis for regulation irrespective of the type of other financial services (like insurance, housing finance) and non-financial services provided by the mFIs along with the financial services.

mFIs Purveying Credit only

Most mFIs having outstanding loan business of a high order would normally have borrowings from banks, development financial institutions, or other agencies for the purpose of on-lending. Such mFIs will in any case be monitored by the lending agencies as part of their ordinary business as lenders. However, in the interest of the organisational development of the mFI, some other form of regulation will also be necessary. Such mFIs will have to comply with suitable prudential accounting norms relating to income recognition, asset classification and provisioning. This type of regulation is considered necessary especially for such mFIs not only for ensuring healthy loan portfolio but also for enhancing their credibility with the financing institutions.

In the ordinary course, regulation for these mFIs will be, to a great extent, through the auditors. The auditors may be required to check the microfinance activities of the
agencies carefully and report about their performance in a prescribed manner. They
may be required to submit a special report confirming that the agency has got
registered with the competent authority or has applied for that, and is not actually
mobilizing any savings. In the event of violation, the auditors may report directly to
the competent authority.

mFIs Mobilising Savings and Purveying Credit

A large number of NGOs mobilise thrift (savings) from their loanees or clients as part
of their programme for serving the poor. This raises a question about the
appropriateness of NGO-mFIs mobilising thrift and savings from their clients
/loanees. Such agencies may broadly be classified under the following categories:

1. SHGs' Federations acting as balancing centres very often accept surplus
   resources of one SHG for on-lending to another SHG;
2. NGOs replicating Grameen model mobilise small savings from the individual
   members of the groups which add to the resource base for loaning among the
   client-members; and
3. NGOs implementing various savings and credit schemes accept thrift /
   savings from their clients. Credit Unions in Kerala and Tamil Nadu and
   'Jeevan Deep Scheme' of Ramkrishna Mission Lok Shiksha Parishad, West
   Bengal are a few of such cases.

It is often contended that the principal business of the NGOs is not that of a financial
institution, as these institutions are basically engaged in socio-economic upliftment
of the poor. Many NGO-mFIs are mobilising savings from their client-borrowers or
beneficiaries of their social sector interventions with the sole objective of inculcating
a habit of thrift and savings among their poor clientele and for enabling the use of
such resources for acquisition of assets or linkage with credit off-take from the mFIs
or banks.
Experience from the SHG bank linkage programme has shown that the rural poor save by foregoing their consumption needs and such small amounts of thrift can trigger investment in unconventional activities which in turn acts as the starting point for their economic upliftment and integration with the economic mainstream. This potential has been recognized by the NGO-mFIs which provide the services of safekeeping of the thrift amount of the clients through innovative savings products.

Due to various reasons, the formal banking sector has not been able to provide a suitable savings product or mechanism to tap such thrift which are also at times in non-cash mode, as these were not considered cost effective. Providing cost effective savings service also becomes difficult where the bank branches are serving a large number of villages. Savings, therefore, form part of the overall integrated package of financial and non-financial services by the NGO-mFIs. While relevance of flexible and timely credit to the poor by the NGOs has been recognized by GOI, RBI and the banking system, provision of savings services can not be viewed in isolation.

These NGO-mFIs are providing very useful financial services to the poor including the opportunity to keep their very small savings safe and almost at their own doorstep. There are, however, certain inherent institutional constraints in these NGO-mFIs converting themselves into cooperatives or NBFCs. These are:

1. absence of enabling provision to transfer the assets and liabilities of the NGOs to any non-NGO structure;
2. financial services provided as an add-on activity incidental to main developmental activities of charitable nature and therefore practically unseparable from the core activities of the NGOs;
3. high capital requirement for setting up of NBFCs; and
4. the cooperative institutional arrangement, could lend itself to vitiated managements which do not ensure exclusive focus on the poor.
In the circumstances, denial of such savings services to these poor, especially women, on account of technicalities in the institutional framework of the NGO-mFIs would have the effect of the clientele of the mFI being by-passed by both the banking system. However, proper regulation and supervision of the activities will not only bring in orderly growth of these agencies but also ensure safety of the interests of the small savers. Thus these institutions will have to be treated on different considerations from the ones not mobilizing savings. It was felt that initially after the introduction of their saving schemes, NGOs would need some time and experience to stabilize their services, during which time they may find difficulty in complying with elaborate regulations.

For those mFIs mobilizing savings above Rs.2 lakh and below the cut-off level, the regulation may comprise a minimum reserve of 10% of the savings as at the end of the second preceding quarter. The mFIs may be asked to maintain the reserve in the form of deposits with any scheduled bank in any manner and forward specified quarterly statements to the registration authority. In respect of the mFIs having savings above the cut-off level, the reserve requirements may be 15% of the savings to be maintained in the form of bank deposits. Further, these mFIs may be required to comply with prudential norms regarding income recognition, asset classification and provisioning.

**Prudential Norms**

In conformity with the internationally-accepted "Basle Norms", the financial sector in the country has been subjected to certain prudential norms. Beginning with the commercial banks in early nineties, RRBs, cooperative banks and financial institutions including NBFCs have generally been advised by the RBI to comply with specified prudential norms. The standards of various components of these norms, viz., capital adequacy, income recognition, asset classification and provisioning are being gradually raised over the years to make them at par with internationally acceptable levels for such institutions. The need and relevance of these norms for
financial institutions of any type cannot be over-emphasised for ensuring their
transparency, profitability and sustainability. It is felt that if the mFIs are to be
included in the financial sector, they will have to be subjected to a minimum form of
prudential regulations so that other institutions dealing with them would have
greater confidence about their sustainability. However, the type and extent of these
norms would have to vary depending upon the category of NGO-mFIs.

mFIs not mobilising savings may not be subjected to any specified prudential norms
provided they comply with the registration, auditing, and other reporting systems
and also do not avail any loans for carrying out their lending activities. However, if
such an institution takes loans (from banks or any financial institution) it will have
to comply with specific prudential accounting norms regarding income recognition,
asset classification and provisioning for ensuring sustainability of its operations as
also maintaining proper financial discipline. Regarding the mFIs mobilising
savings above the prescribed cut-off limit, a different set of norms is necessary. Such
norms may include increased reserve requirements besides proper income
recognition, asset classification and some provisioning on the lines mentioned above.

Rating of Savings Schemes

The need for rating of savings products of the mFIs has always been felt. It is
observed that the savings products of the mFIs comprise both voluntary and
compulsory ones. Further, they are in the nature of time (recurring) deposits and
generally not withdraw able in the short term. Some of savings is really in the nature
of capital funds. As the NGOs do not have share capital like the other organisational
forms, these are treated as resources. Incidentally, it may be mentioned that at
present, the maximum period of NBFC deposits is 5 years. However, it is felt that the
saver should have some freedom to utilize the funds as per his/her choice, that is to
say, a saver should have access to the savings at any time, be able to take loan against
it, or lodge it as down-payment for a larger loan. Accordingly, it recommends that
the mFIs will take care, in particular, to ensure that the savings mobilized by them from their clients:

1. are withdraw able as per the discretion of the saver; and
2. are kept with the mFIs for a period not exceeding 5 years.

In the financial sector, except banks, it is mandatory for any institution desirous of mobilising deposits from the public, to secure rating of the savings product from accredited rating agencies. In respect of the NGO-mFIs, since the entire savings are mobilised from the clients and more particularly, from the existing loanees, the requirement of such ratings may not be insisted upon provided the amount of savings mobilised is less than the cut-off level. However, in case any NGO-mFI mobilises savings in excess of the cut-off level of savings, the mFI may also go for rating by any accredited agency. Although the poor savers may not understand the implications of rating of their savings with the NGO-mFI concerned, such a rating may help build public confidence.

Supervision

NBFCs and credit cooperatives are supervised by the RBI and the Registrar of Cooperative Societies of the respective states. MACS are required to be supervised by the Registrar of MACS. However, NGO-mFIs are not subjected to any kind of supervision by a competent authority in the financial sector. With the accession of this sector as a part of the financial sector for providing financial services to the poor, there is a need for the supervision of the mFIs in view of the following reasons:

1. protection of the interests of the savers and the borrowers;
2. orderly growth of the microfinance sector; and
3. parity with other institutions in the mF sector.

In the context of the implementation of financial sector reforms and gradual liberalization of the economy, the creation of an effective and efficient supervision
machinery has been given critical importance and on-site inspection and off-site supervision has been adopted for banks for evaluating their performance under 'CAMELS' system encompassing Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Compliance. As NGO-mFIs are expected to play a greater role in the rural economy and as these agencies are likely to deal with other agencies in the financial sector, their supervision right from the beginning has also to be on similar basis, even though the norms and parameters need not be as stringent as in the case of banks and financial institutions. Further, as in the case of regulation, the coverage and frequency of supervision may vary depending upon the type and range of services provided by the mFIs.

As regards the scope of supervision, asset quality, management and systems should be given primary importance. Both on-site inspection and off-site supervision should bring out clearly the quality of the loans and their impact as also the composition of the clientele.

The periodicity of the inspection will vary depending upon the type of mFIs. For mFIs undertaking only credit activities and availing bank loan, inspection may be done once in 3 years. In respect of mFIs mobilizing savings above Rs.2 lakh, the periodicity of inspection may be once in 2 years.

Competent Authority for Regulation and Supervision

Considering the importance of the regulation and supervision in the growth of the microfinance sector, the Task Force feels that the RBI may have to set up a special arrangement to regulate and supervise the activities of the NGO-mFIs. At the national level, the overall regulation and supervision of NGO-mFIs will have to remain with RBI. At present there is no legal enactment which can take care of the requirements for regulation and supervision of NGO-mFIs. The RBI Act, 1934 does not also recognise the financial activities of the NGO-mFIs as a class. Also, Banking Regulation Act, 1949 is totally silent about the concept of microfinance and mF
institutions. There may, therefore, be a need for suitable amendments to the RBI Act and the B.R. Act to respond to the emerging developments of the microfinance sector. It is observed that from the point of regulation what is relevant is the safety of the savings, sound functioning of the institution and quality of their loans. Since these institutions are comparable with NGOs as regards non-distribution of profit, the Task Force feels that these companies may be subjected to the same regulatory norms as would be applicable to the NGO-mFIs mobilising savings.

**Regulation and Supervision Costs**

In the absence of a regulatory framework, at present there is no cost being incurred by any agency for regulation of the NGO-mFIs. But, if a regulatory mechanism for the mFIs is to be set up, there would be costs both for regional or state as well as national level set-up. If the set-up is not wholly under RBI, and is to be managed very largely by SROs at the regional or state levels, direct costs will have to be met. As part of the overall financial sector, the regulation and supervision costs will have to be borne by the RBI.
Data Collection
and
Analysis
Chapter 7  Research Methodology: Data Collection and Analysis

7.1 Methodology of data collection
  7.1.1 Secondary research tools
  7.1.2 Primary research tools
  7.1.3 Data collections
  7.2 Data analysis
  7.2.1 Institution profile
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