

**FEASIBILITY STUDY OF A MICRO-FINANCE INITIATIVE  
IN THE JHABUA DISTRICT OF MADHYA PRADESH**

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## EXECUTIVE SUMMARY

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V	<b>Project Title:</b>	Feasibility of setting up a Micro-Finance Institution in Jhabua.

### Objectives

The objectives of this study are:

- To understand the various credit sources that families use, cost of credit, terms and conditions and the loan operandi used by the moneylenders.
- To understand the cash flow, income & expenditure scenario and the credit requirement of the families of different categories.
- To asses the feasibility of initiating a Micro Finance Institution in Jhabua district.

### Scope of the Study:

The scope of the project was restricted to the eight blocks of Jhabua district. These were Jobat, Alirajpur, Meghnagar, Thandla, Ranapur, Rama, Kathiwarra and Jhabua. Two villages from each block were selected for conducting the detailed research.

### Methodology:

The methodology used involved 32 FGDs, 48 detailed questionnaires from the villagers, in 16 villages across the 8 blocks of Jhabua district. Apart from these semi-structured interviews were also held with the bank mangers, traditional moneylenders and various development professionals working in the area. The secondary sources of data included books and journals on microfinance and web resources. The sample was chosen after stratifying all the villages of the district into three categories on the basis of three indicators of their prosperity.

### Major findings:

The groups are functioning more as savings and credit groups rather than SHGs. (2) The total credit requirement of the district was found to be Rs. 2994793750. (3)The bankers complained of lack of monitoring of groups by the NGOs, while the NGOs blamed the banks for target oriented loaning as the reason for the high default rate of the SHGs. (4) Migration was perhaps the only source of cash income for most households where they work as wage laborers, while social expenditure of the families was found to be extremely high. A sizeable amount was also being spent on alcoholism (5) Informal sources were the primary lenders to the households and their interest rates ranged from 50 to 150% per annum. (6) ASA had an inefficient MIS. (7) ASA lacked competent staff capable of working in an MFI. It was found to be a prime reason of the inefficiency in the payment rates of service charges by the SHGs. (8) On analysis it was found that the repayment rate and the interest rate differential were critical factors for the feasibility of the MFI.

### Recommendations:

Based on the findings and the analysis done by us culminated in the following recommendations (1)The critical factors needing immediate attention are the monitoring systems and procedures, human resource development and capacity building of SHGs.(2) In order to improve the monitoring system emphasis needs to be laid upon staff incentive structure, MIS and internal audit.(3)Other important factors needing attention are: Establishing institutional linkages, A good governing board, Better financial and operations management, Efficient use of the MIS software, diversification of sources of funds, move towards Self-sufficiency and financial standing in the long run. (4) Finally ASA should not neglect the needs of the poor and target better-off people in search of financial sustainability.

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## **ABBREVIATIONS**

1. ASA Action for social advancement
2. BPL Below poverty line
3. DRDA District rural development agency
4. FGD Focused group discussion
5. MFI Micro finance institution
6. NABARD National bank for agriculture and rural development
7. NGO Non governmental organisation
8. RRB Regional rural banks
9. SHG Self help group

## GLOSSARY

1. Akhateez	A tribal festival held in the month of May
2. Adhyaksh	The chairman of the group
3. Bhil	A tribal community
4. Bhilala	A tribal community
5. Deepawali	A Hindu festival celebrated mostly in November
6. Holi	A Hindu festival celebrated mostly in March
7. Mahajans	The local moneylender
8. Mahasammelan	Gathering of Micro finance program staff and SHGs
9. Mamera	A tribal custom
10. Mela	A gathering of small traders in rural areas
11. Nyotra	A tribal custom
12. Panchs	Heads of the village, mostly members of Panchayat
13. Pateliya	A relatively better off tribal community
14. Raipura mela	A tribal festival held in the month of April
15. Sachiv	The Secretary of the group
16. Sahukaar	The traditional moneylender
17. Todana	Acceptance of lesser amount in case of default

## 1.0 INTRODUCTION

*“The International Year of Micro credit 2005 underscores the importance of microfinance as an integral part of our collective effort to meet the Millennium Development Goals. Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.”*

**-- Secretary General of U.N. Kofi Annan**

There have been incessant efforts to address the constraints stated by the Secretary General of U.N. In the post nationalization period there was an increasing focus towards provision of credit to the poor people. Despite the expansion of the credit infrastructure credit flow to the poor, and especially to poor women, remained low. Consequently National Bank for Agriculture and Rural Development (NABARD) was set up with the objective of framing appropriate policy for rural credit, provision of technical assistance backed liquidity support to banks, supervision of rural credit institutions and other development initiatives<sup>1</sup>.

In India various estimates put the requirement of micro-credit at Rs.150 billion to Rs.500 billion per year. As against these, the bank advances to the weaker sections have aggregated about Rs.100 billion per year, and SHGs are expected to provide about 1 billion per year. About 36% of the rural households are beyond the scope of the institutional credit<sup>2</sup>.

Research studies undertaken by NABARD in collaboration with NGOs like MYRADA etc revealed that the existing banking policies, systems and procedures, and deposit and loan products were perhaps not well suited to meet the most immediate needs of the poor. It was felt that the poor needed better access to these services and products, rather than cheap subsidized credit. If people perceive an institution to be hostile or unresponsive to them, they hesitate to approach it and to continue an ongoing relationship on their own no matter how much they are persuaded to do so. The perceptions of the people towards the existing financial institutions can be understood from the following instance.

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<sup>1</sup> Mf in India an overview, <http://www.nabard.org/roles/mcid/section1.htm>

<sup>2</sup> Source: Perspectives on emergence of growth of MF sector in India

*On the occasion when people were asked to identify the credit sources in their village they listed the bank, the co-operative society and the moneylenders. Asked to describe these institutions they brought a large stone and said, “This is the bank, it is unmovable!” The co-operative society was symbolized by a smaller stone with a piece of paper beneath. “We can get credit but after a lot of paper work for which we have to pay”. Moneylender symbol took some time to be identified: they finally come up with a parthenium plant. “Once it come into your garden, it is very difficult to eradicate!” they said. Yet when asked to identify which of these three they considered to be “most honest”, they pointed to the parthenium”. Which source was prompt in providing loans? Once again it was “parthenium”. .....The same people after being exposed to their own credit group added a “flower” to symbolize their credit group alongside the stones and parthenium<sup>3</sup>.*

Thus a need has been felt for alternative policies, systems and procedures, savings and loan products, other complementary services, and new delivery mechanisms, which would fulfill the requirements of the poorest, especially of the women members of such households. This has given birth to an increasing emphasis on Microfinance for improving the access to credit for the poor<sup>4</sup>. A large number of NGOs have started their own MF programs in an attempt to develop the people in their respective areas. They have followed basically the same strategy although minor modifications exist in the models being used by the different NGOs. Micro credit has become a major tool of development. By providing loans rather than grants the micro-credit provider can become sustainable by recycling resources over and over again. In other words, micro-credit appears to deliver the "holy trinity" of outreach, impact and sustainability<sup>5</sup>. ASA is presently using the NABARD'S SHG linkage model. Before explaining the model and its program it would be helpful to know the context in which it has evolved.

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<sup>3</sup> This excerpt is based on the incident quoted in the article-- Fernandez A.P.“ An alternate credit system, Why the need arose” Microfinance course material, Institute of rural Management, Anand. 2004.

<sup>4</sup> Microfinance encompasses the management of small amounts of money through a range of products, and a system of intermediary functions that circulates money in an economy. Microfinance is small in value amounts targeted at low incomes clients. It includes loans, savings, insurance, transfer services and other financial products and services. Providers of microfinance include non-government organizations (NGOs), self-help groups, cooperatives, credit unions, commercial and state banks, insurance and credit card companies, wire services, post offices, and other points of sale.

<sup>5</sup> Fisher Thomas and Sriram M.S., “Beyond Micro – Credit: Putting Development Back into Micro – Finance.” New Delhi , Vistaar Publications , 2002

## **2.0 JHABUA - SOCIO-AGRO-ECOLOGY PROFILE**

Jhabua is a predominantly tribal district with 86% of nearly 13.94 lacs population belonging to Bhil tribe. Jhabua with an area of 6793 square kilometers is the western most district of Madhya Pradesh. It is about 320 kilometers from the state capital Bhopal. The area lies between 22.5<sup>0</sup> and 23.8<sup>0</sup> north of equator. The climate in this area varies from dry sub-humid to moist sub-humid. The rainfall is unimodal and is both spatial and temporally, variable. The annual rainfall in Jhabua is about 70-80 centimeters<sup>6</sup>. Droughts occur once in every 3-4 years while years with high rainfall are also common in the area.

Land holdings in the area are generally small, averaging between two to three hectares. The proportion of small and marginal farmers (with land holding less than two hectares) in Jhabua is fifty percent while very small holdings of about half hectare also constitute sizeable proportion of holdings. Most households own a pair of cattle. Bullocks are considered as a status symbol in the tribal society although they have very little economic value especially in drought years.

Bhil women generally get married after they reach puberty and have an average of four to five children by the time they reach thirty-five years. Large-scale seasonal migration of the male work force further increases hardships of a woman as they not only have to perform the daily chores but are also responsible for on farm activities. However if compared with status of other women Bhil women have a greater decision making power. Yet the women are excluded from property rights.

### **2.1 Customs and Practices**

The tribal in this area practice the system of reverse dowry and hence it is the bridegroom who has to shell out an amount of about fifty-seventy thousand rupees for marriage. This is one of the major reasons for the indebtedness of the tribal as they end up in the trap of moneylenders, once they take loans to meet these sorts of unproductive expenditures. Apart from the family involved in the marriage other relatives also contribute some money in the marriage. The tribal have a custom by the name of *Nyotra* wherein they need to double the

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<sup>6</sup> <http://www.jhabua.nic.in/factfile.htm>

gift amount that they had received from the person. This cooperation proves to be very beneficial to them in times of marriages when around 25-30000 rupees are obtained from this system of *Nyotra*.

## **2.2 Migration**

Migration is an important feature of this region. Around 60-70% of the families migrate for around six to seven months in a year. They migrate in two stretches the first being from the month of November (just after *Deepawali*) to February (just before *Holi*). Thereafter they enjoy themselves in the festival season and then again go for working from the end of March to May. They return for working in their fields just before monsoon. Families who had a good crop in the preceding year or have better located and irrigated land stay in the village while others migrate again. The migrants work as wage laborers and their wages vary from fifty to hundred and fifty rupees a day.

## **2.3 Indebtedness among tribal**

The subsistence agriculture resulting from the harsh agro-climatic conditions and the rocky terrain is the primary cause for the house holds to borrow for consumption and productive investments. Rutherford (2000:4) has rightly argued that poor households need relatively large amounts for life cycle needs like marriages, festivals, and old age), emergencies like illness, death of breadwinner etc<sup>7</sup>. This was evident in the field observations as the loans were primarily taken for agriculture, household consumption, social and religious purposes like marriages etc and also for emergencies like illness etc.

Loans taken for the purpose of consumption, agriculture and social events are seasonal in nature. The monsoon season (June-August) when land preparation, sowing and weeding are at a peak, are the times of greatest shortage. At this time the price of staples is almost double the selling price at harvest. The social expenditure, which is at the peak during March till onset of monsoon, contributes largely to the total house holds borrowings<sup>8</sup>. The tribal especially the Bhils spend huge amounts in drinking and eating during the festival season. If

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<sup>7</sup> Fisher Thomas and Sriram M.S., "Micro-finance and social and economic security" New Delhi , Vistaar Publications , 2002

<sup>8</sup> Based on discussion with the staff of Action for Social advancement,

the family has accumulated large debts then more members of the households go on migration than in a normal year<sup>9</sup>. The income earned during the period of migration goes into the servicing the debt incurred while going for migration while the part left goes into drinking etc in the festival season. This leaves them with no other option but to go to moneylenders again to finance the next year's requirement. The assets possessed by a farmer in the form of animals, silver jewelry etc. play an important role in obtaining loans from money lenders or in arranging marriages. Other animals like goats and hens are also part of investment strategy, which are sold in local markets to meet unexpected occasions.

### **3.0 RATIONALE OF THE PROJECT**

The gap between the supply of credit from formal sources and the demand from the rural-based tribal communities is widening in tribal areas. The harsh terrains, uncertain agriculture all contribute to an increased requirement for credit in order to meet the basic human needs. The reach of the formal or institutional credit sources is insufficient, inflexible and uncertain. The formal sector failed to realize the mismatch between the hierarchies of credit needs and credit availability, resulting in 'adverse usage' of credit. Credit need starts with consumption purposes, which are only being met through informal sources at high costs. Higher needs come into play only when the lower needs are satisfied. However credit is usually available for higher needs like establishing new enterprises. Money being fungible, loans taken for diversification is used for lower level needs first. This often results in adverse usage and hence lower repayment rates.<sup>10</sup>

Therefore the local informal credit sources (moneylenders) have grown to control the livelihood cycle of this largely agricultural based community. Although they charge exorbitant interest (60-150%) rates but provide timely credit to the needy without any hassles. Once the tribal get into the debt trap they are left with no other option but to migrate as the local livelihood systems are not productive enough to generate sufficient income to liberate them from the trap. The money earned from migration goes into the repayment of earlier loans and very little is left to cater to even the basic needs.

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<sup>9</sup> Fisher Thomas and Sriram M.S., "Micro-finance and social and economic security" New Delhi." New Delhi , Vistaar Publications , 2002

<sup>10</sup> Fisher Thomas and Sriram M.S., "Introduction to the financial sector in India" New Delhi , Vistaar Publications , 2002

All this has fueled the debate on the type of institutional structures that can provide easy and cheap credit to the poor. The transaction costs of savings can be as high as 10 percent for poor rural households<sup>11</sup>. Self Help Groups (SHGs) of rural poor are perhaps the most potential organizations to this end. They not only reduce the transaction cost of saving for the poor, free them from the clutches of moneylenders but also empower the members to take on the world more confidently. ASA also saw them as a solution to the problem and therefore formed SHGs and linked them to the banks for credit services. This intervention can be considered as a shift in approach from development to empowerment, wherein they plan their withdrawal strategy from service delivery projects and think of their own sustainability by providing financial services<sup>12</sup>.

As per the studies undertaken on behalf of ASA by various scholars it has been found out that the banks have not been forthcoming in extending credit to the SHGs. The NABARD guidelines for the banks insist that the first loaning amount should be twice the savings amount, second must be thrice, and third should be four times. The extent to which this guideline is followed is questionable given the constraints under which the bank managers are supposed to work. Instead of the usual 1:4 ratio that should exist between the groups savings and the credit extended the banks have merely extended the credit at ratio of 1:2. The bank managers plead that the high risk of default leaves them with no other option but to be cautious in their approach towards SHG loaning. The delays in getting the loans have led to the tribal being still dependent on the moneylenders.

Consequently Action for Social Advancement (ASA) feels that there is a need for a Micro Finance Institution (MFI) that would extend credit to the SHGs in a timely manner at affordable rates. This feasibility study is an attempt to see the viability of this option. The experiment of ASA, in promoting micro finance in the most fragile and resource poor district of Jhabua, is an attempt to find the answers of many unresolved questions. They believe that by extending efficient credit services to the poor they would be able to channelize the

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<sup>11</sup> Fisher Thomas and Sriram M.S., "Introduction to the financial sector in India" New Delhi , Vistaar Publications , 2002

<sup>12</sup> Tucker Michael and Miles Gerard , " Financial Performance of Microfinance Institutions : A comparison to performance of Regional Commercial Banks by Geographic Regions." , Journal of Microfinance , Volume 6, No. 1, p 41 – 79

substantial income from migration needs for asset building rather than being used to service the debt.

## **4.0 OBJECTIVE AND SCOPE OF THE PROJECT**

### **4.1 Objectives**

The objectives of this study are mentioned below:

- To understand the various credit sources that families use, the cost of credit, terms and conditions and the loan operandi used by the moneylenders.
- To understand the cash flow, income & expenditure scenario and the credit requirement of the families of different categories.
- To asses the feasibility of initiating an MFI in Jhabua district.

### **4.2 Scope**

The scope of the project was restricted to the eight blocks of Jhabua district. These were Jobat, Alirajpur, Meghnagar, Thandla, Ranapur, Rama, Kathiwara and Jhabua. Two villages from each block were selected for conducting the detailed research.

### **4.3 Limitations**

The study was constrained by the following factors:

1. The report writers had Hindi as their mother tongue while the people in Jhabua use Bhil language that is difficult to comprehend in such a short period of time. This was a constraint in our study, as we needed a local people to comprehend the discussions fully.
2. The terrain in this area is undulating and traveling in this district from one block to other block was very difficult. Also due to the violent nature of few tribes we were advised to travel only during the daytime.
3. The timing of study was also a constraint. Firstly it was affected by Deepawali festival because tribal celebrate this festival for a long period. Secondly it was

affected by migration, which occurs after Deepawali. We found hard to conduct FGDs in villages because people had moved to Gujarat, Rajasthan etc.

4. The project necessitated the coverage of 8 geographically dispersed blocks. This restricted the choice of sampling. The study would have been more accurate if the unit of sampling was a household and not the village. Also the use of questionnaires over a sizeable sample size would have given more accurate results. Given the time and resource constraint it was not possible for us to do the same.

## **5.0 METHODOLOGY**

### **5.1 Primary sources**

The primary data of the above mentioned organisations was collected through FGDs, structured, semi structured interviews, and informal interviews with the moneylenders. In order to gain insight into the practices of existing MFIs BASIX etc were also visited.

#### 5.1.1 Focussed group discussions

The study involved the conduction of 30 FGDs in 15 villages across the 8 blocks of Jhabua district. The focus in the FGDs was on issues related to the understanding of their cash flows, credit needs of the people and the sources they use to obtain credit. The group on which the FGDs were conducted included both SHG members and non-members.

#### 5.1.2 Personal interview

The primary Focused Group Discussions were followed up by 3 detailed questionnaires in the same village. This was done in order to validate the information collected in the FGDs. The bank managers of the Lead bank, Regional Rural Bank and other commercial banks were also interviewed with the help of Semi-structured interviews. Informal discussions were also organized with the various development professionals working in the area. In order to gain a deeper understanding of the MF program of ASA, the Microfinance Mahasammelans was also visited and discussions held with all the MF staff and also the members of all the SHGs, who participated in the Mahasammelans.

## **5.2 Secondary sources**

The secondary data were collected from the following resources:

### 5.2.1 Literature review

The methodology includes a comprehensive literature review on micro-finance and its different models existing in India.

### 5.2.2 Web Research

The study included conducting web research on the different MFIs and articles on Microfinance. The websites of different MFIs and the National bank for agriculture and rural development (NABARD) were explored which provided rich material on their functioning.

### 5.2.3 District statistical book:

The official statistics of the whole district were used to stratify the villages into three different strata. The data gathered from Banks and also the district credit plan prepared by the lead bank (Bank of Baroda) was utilized for the study.

## **5.3 Sampling Plan**

The stratification of the villages was based on their economic status. The discussions with the developmental professionals and the director of our host organization yielded that it was perhaps the only factor that differentiated one village from the other in the district. The villages in the different blocks of the Jhabua District were otherwise homogenous in terms of their socio-cultural practices that are generally important in a tribal context. In order to map the economic status of all the villages, the three parameters viz. the percentage of BPL households in the village, per capita agricultural land in the village and also the availability of water resources (Well, Handpump and Ponds) in the village.

In order to map the level of infrastructure in the village only the availability of water was considered. This was done due to the absence of data regarding other indicators. Therefore given the geographical context where literacy levels and lack of availability of health

facilities was a common phenomenon in all the villages, it was assumed that availability of water was an important factor that determined the level of prosperity in the village as it increase the income from agriculture significantly (Double cropping). Therefore a composite water index was developed based on per capita availability of hand pumps and wells in the village.

In order to map the availability of agricultural land in all the villages of the district per capita availability of agricultural land in all the villages was calculated and ranked. The land sown in both the *khari* and *rabi* seasons was taken separately and then later on a composite indicator was developed assuming that the villages where double cropping was possible were better off than villages where it was not possible.

After obtaining the composite indicators for the three parameters of the percentage of BPL households in the village, per capita agricultural land in the village and the availability of water in the village it was required that a index be developed that would include the effects of all these factors on the basis of their relative importance. Therefore the three indicators of BPL, agricultural land, and availability of water were weighted in the ratio of 2:2:1. Finally all the villages of the district were ranked on the basis of the composite scores obtained. Thereafter they were stratified into three classes of rich, poor and extremely poor villages based on the criteria chosen. Based on the stratification it was found that out of a total of 1319 villages 84 belonged to the richer villages, 933 to the middle level and 298 to the poor. The final sample of 16 therefore was distributed as 1 village from the rich villages, 11 from the middle level and 4 from the poor villages. In each of these villages 2 FGDs were conducted and also three questionnaires administered to validate the findings.

### 5.3.1 Methodology for calculating cash flows

Based on the data collected from the FGDs and the questionnaires the average income and expenditure accounts of households belonging to the three different economic strata were calculated. These averages were multiplied with the weightage of the different strata to obtain the consolidated cash flows of the families. The excess of outflows over inflows gave the credit requirement on an average in this district.

## **6.0 GENERAL MODELS OF MICRO-FINANCE DELIVERY IN INDIA**

SHGs form the pivot around which the existing MF models in India revolve. They work on the principle which substitutes peer pressure as the new collateral around which the bankers are willing to lend. This acts as a boon to the asset less people who seldom have any collateral. The repayment rates in SHG based credit system are better than other credit systems. Empirical evidence suggests that they are generally around 90-95%. Peer pressure not only insures a good repayment rate but also insures that the money is used for the use for which it has been granted. There are basically four types of models of Micro finance/Micro credit delivery in India<sup>13</sup>.

### **SHG – NGO – Bank**

In this model the NGO acts as a pseudo bank by taking over the functions of the Bank like providing credit facilities and performing the saving functions of the SHGs. This model is constrained by the drawback that there is too much responsibility on the NGO, which the NGO is often found to be incapable of handling.

### **SHG – Federation – Bank**

According to this model the Federation provides credit facilities and helps in the saving functions of the SHGs. Thus the NGO or the Federation becomes a MFI and acts as an intermediary between the bank and the SHG.

### **SHG – Cluster – Federation – Bank**

This model follows the cluster concept. It is a relatively new model and its sustainability remains to be tested and trusted. Organizations like PEDO and DHAN follow this model.

### **SHG– Bank – Federation/NGO**

This model is the brainchild of NABARD. This is perhaps the most widely prevalent model in India In this model there is a direct linkage between the SHG and the bank while the NGO or the Federation acts as the facilitating agency. Almost two-thirds of the SHGs formed in

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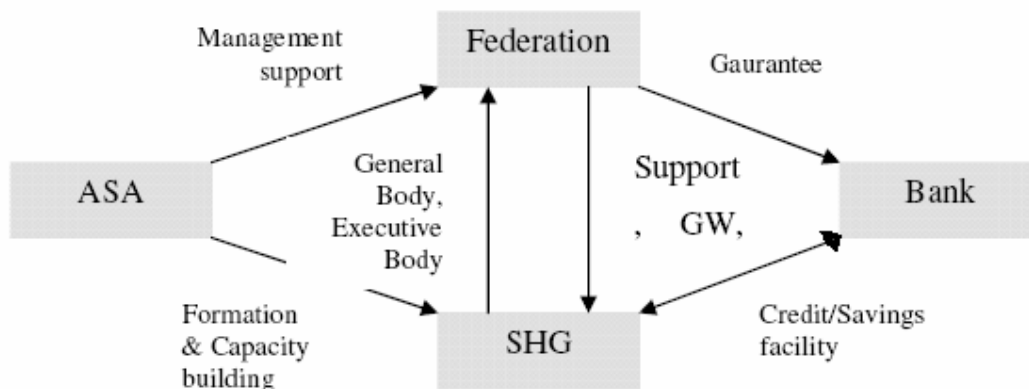
<sup>13</sup> Jain Raman "Formulation of a cost-effective strategy for the Micro Finance program"(2004)

India are of this model with minor contextual adaptations. This model is believed to have better success rate.

## 7.0 OVERVIEW OF ASA’S MICRO-FINANCE PROGRAM<sup>14</sup>

ASA has been running its micro-finance program since the last five years. It follows the SHG bank linkage model promoted by NABARD. ASA plays an important role in supporting and training the SHGs and federation. The strength of an NGO in MF lies in its target group approach, flexibility, innovation, experimentation, grassroots presence and motivation<sup>15</sup>. The job of customer development in the MFI terminology is done by ASA. Presently ASA has more than 560 SHGs. It is on the way of achieving the target of 700 SHGs by the end of this year (2005).The generic model can be diagrammatically represented by the following:

**Figure: 1 ASA Model of Micro Finance<sup>16</sup>**



### 7.1 Staff Structure of ASA for MF operation

The present staff structure is shown below. The Program Leader is responsible for providing overall program guidance and support from the Head office in Bhopal. The lowest person in the hierarchy is the group worker. He supervises around 20 groups or 300 members on an average. The Program supervisor supervises 8 group workers or 2400 members on an

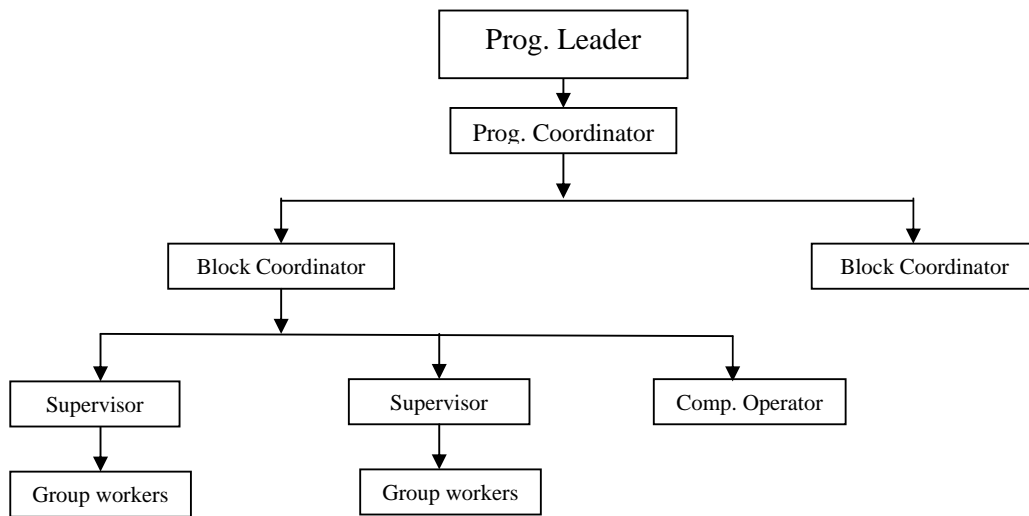
<sup>14</sup> A Brief of ASA model , Action For Social Advancement

<sup>15</sup> Perspectives on emergence of growth of MF sector in India

<sup>16</sup> Jain Raman "Formulation of a cost-effective strategy for the Micro Finance program"(2004)

average. Block coordinator has responsibility to supervise 3-4 supervisors and computer operators. The Program Coordinator based in Jhabua is responsible for supervising the 5 block coordinators. In the block Jobat and Ranapur the federations have come into being and the respective block coordinators are in-charge of these federations. In block Udaigarh, Meghnagar and Jhabua the block coordinators are in place and eventually federations will be formed once a minimum number of SHGs are formed i.e. 125-150 SHG. The Salary of group workers and program supervisors is given from the service charges collected from the members of SHGs. So their salary is dependent on collection of service charge from the groups. This often creates problems for them as if the group members loose interest in the SHG then they also stop paying the service charges thus affecting the morale of the GW. However it has not been a problem as in this case it is ASA which bears the deficit from its own funds. The rest of the employees get salary from the Paul Hamelin Foundation.

**Figure: 2 Staff structure of MF division of ASA**



Source: ASA Micro finance rulebook (2004)

## 7.2 Service Charge

There is provision that every SHG member has to pay Rs.75 annually as service charges. After two years the members of the SHG are expected to pay Rs.100 annually. The villagers have very little knowledge of maintaining accounts and hence they need the help of the group worker for maintaining their accounts, completing other formalities and also at times

transacting with the bank. ASA provides this help with the help of the GW and in lieu of this service it charges this service charge.

### **7.3 Savings and Group Meetings**

A SHG member is required to save a minimum of thirty rupees per month. In ASA all members of a group save equally and it ranges from Rs.30 to 100. These savings are collected in monthly group meetings. The Group worker facilitates these group meetings. Important decisions relating to internal loaning, bank loaning, savings etc are taken at the meeting of the group. The SHGs in Jhabua, Ranapur and Meghnagar block tend to save more than SHGs of Alirajpur and Jobat. This is in spite of the fact that per capita income of Jobat and Alirajpur block is more than other blocks. The reason for this can be sought in the fact that the livelihoods of the people not living in these richer blocks are more insecure and hence people there are more interested in using their savings as a sort of Self-Insurance to meet the contingencies. Therefore they save more than their counterparts in Jobat or Alirajpur.

### **7.4 Loan**

There are two kinds of loans that the groups are getting. First is agricultural loan and second is term loan. Presently most of the loans disbursed to SHGs are agricultural loans that are of one-year duration. A SHG can get a loan from the bank if it has saving of minimum of Rs.5000. Generally SHG takes six to twelve months to reach the required savings. The rate of interest on the loan is 24 percent; if the installment becomes due for more than three months then the interest rate becomes 36 percent annually.

### **7.5 Federation**

ASA forms a federation of SHGs if the number of SHGs accedes more than 125-150 SHGs in a block. The federation is a conglomeration of the SHGs, which provides active support to the SHGs in the loaning process by not only certifying their loan applications in the Bank but also standing as guarantee for them in the Bank. The federations are democratic bodies. The Federation provides the service of monitoring of SHGs, facilitating loans through bank to SHGs and also helps in training of SHGs. At the time of formation of SHG some money is collected which is given below:

**Table-1 Break up of money collected during the first meeting**  
**In Rupees**

Sl. No.	Particulars	Amount	Duration	Collecting Agency	Refundable
1	Membership fees	11		Federation	Non-refundable
2	Service charges	75 <sup>#</sup>	Every Year	Federation	Non-refundable
3	Stationery	200 <sup>*</sup>		Federation	Non-refundable
4	Compulsory Savings	30 <sup>\$</sup>	Monthly	SHG	Refundable

Source: ASA Micro finance rulebook (2004)

\*Per group

<sup>#</sup> After two years charges will be Rs. 100 per year

<sup>\$</sup> Group decides the amount to be contributed over and above this charge

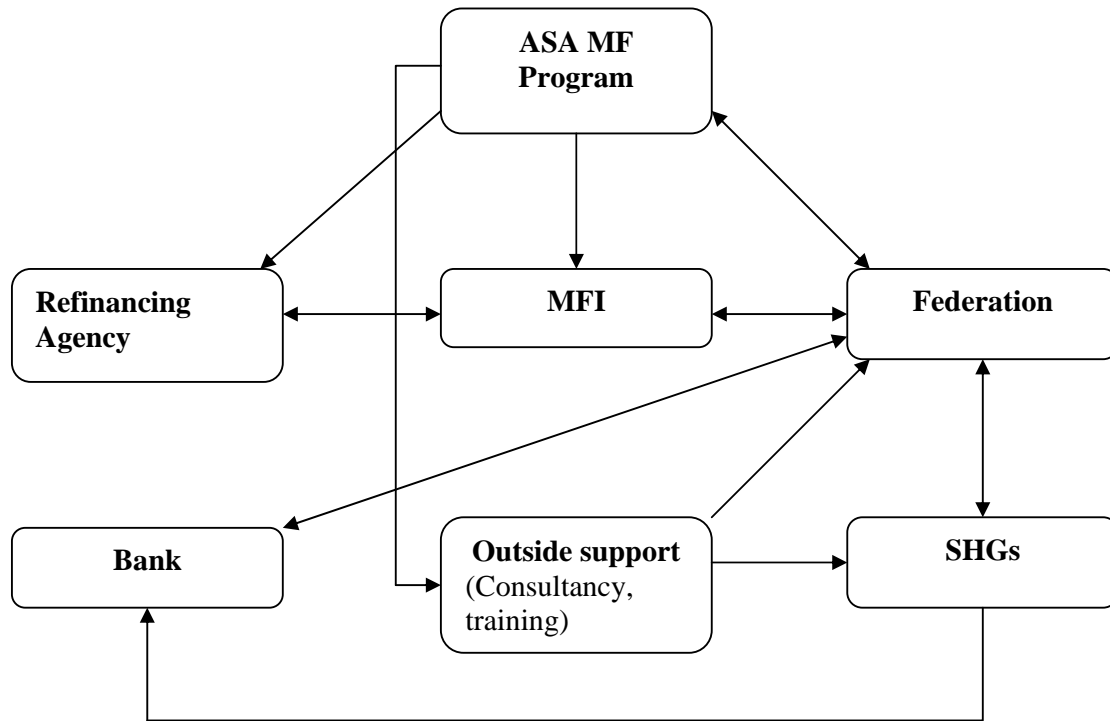
## 7.6 ASA's proposed model

As per the model proposed by ASA a separate MFI would be established by ASA and total hand holding support would be provided to it by ASA. The MFI would not have any role to play with savings and they would be deposited by SHG members directly to the bank. The Federation would be responsible for collecting service charge from SHGs and providing a hand holding support to the SHGs. The Federation would also facilitate the formation of new groups<sup>17</sup>.

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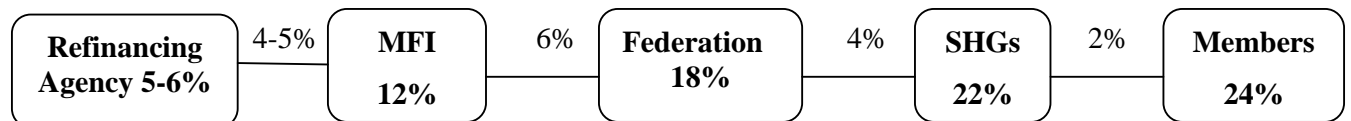
<sup>17</sup> Based on study conducted by ASA.

**Figure: 3 Proposed MF program of ASA**



The MFI will receive the funds from a refinancing agency and lend them to the federations at a higher rate, which in turn would be subsequently lent to the SHGs. The whole risk of default would be borne by MFI and not the federation. ASA will play the role of facilitator and would provide training and consultancy to the federation and MFI. The proposed model assumes that the loan from refinancing agency would be received at 12% per annum by the MFI. The MFI would lend the money to federation at a rate of 18% per annum. This federation would lend the money at 22% per annum to SHGs and SHGs would lend loan to members at 24% annually. This has been depicted in the following diagram.

**Figure: 4 Interest Rate Structure**



From the above diagram, different rates of interest at various levels can be seen. The interest retained is 6% by MFI, 4% by federation and 2% by SHGs. Finally the SHGs would get the loan at the rate of 24% per annum.

## 8.0 FIELD OBSERVATIONS

The following are based on the observations that we in the field while conducting FGDs in the 8 blocks of the Jhabua district:

- The SHG members lacked the awareness about the benefits of an SHG. The lower interest rates and availability of credit was the only benefit perceived by them. Fernandez (2001:16) has argued that Models where credit is the fulcrums are not empowering and it is the management of credit that has the potential to be an empowering tool<sup>18</sup>. The excessive dependence on the group worker as seen in the ASA groups is not a good sign if seen in the light of this argument.
- There was excessive dependency on the chairman and secretary of the group. It has been observed that members can become highly dependant on individual leaders and be largely unaware of their own responsibilities<sup>19</sup>.
- Mostly loans are taken from the group for consumption purposes only and seldom utilized for income generating activities or asset creation. Loans are also taken for emergencies like illness etc. The loan amounts extended to the SHGs are often too small to bring a significant change in the lives of the members. Thus it fails to break the vicious debt cycle into which the tribal are trapped and hence there is very little impact on their lives. This often is an important factor in the disinterest of the members towards the SHGs and an important determinant of the success of the SHGs. Many groups were found to be lying dormant or have become extinct due to the disinterest of the members.
- The other important reasons for the breaking up of loans were migration of members, quarrels among the members. Once the members go out on migration their savings also come to a halt which often leads to the breaking of the SHG. The members are also easily influenced by others who often quote instances where the MFI had run away with the money deposited by the members.

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<sup>18</sup> Fisher Thomas and Sriram M.S., "Micro-Finance and people's organisation." New Delhi , Vistaar Publications , 2002

<sup>19</sup> Fisher Thomas and Sriram M.S., "Micro-Finance and people's organisation." New Delhi , Vistaar Publications , 2002

- The banks see Banks are seeing rural lending as a social obligation than as a business proposition<sup>20</sup>. The banks generally don't prefer lending to SHGs unless they are under pressure to meet targets of government schemes. The managers cite the reason that many SHGs have defaulted on their loans and hence they have reduced the amount of loan sanctioned to a group and are more careful now. They also cited the problem of lack of monitoring by the NGOs that had formed the group.
  
- There were also cases where the SHG members complained that there were unnecessarily long delays while availing credit from the banks. In one of the cases a SHG cited that it got the loan after 10 months of the application and hence it was of no use<sup>21</sup>. Therefore they lost interest in the group and presently the group is lying dormant. Banks admitted that there are certain problems while the first loaning to the banks but denied that this is a regular feature and claimed that generally a loan application is discharged within 15-25 days. Successful repayment of the first loan smoothens the process and subsequent loans are of larger proportion and also easier to obtain.

## **9.0 INCOME AND EXPENDITURE PATTERN**

### **9.1 Income**

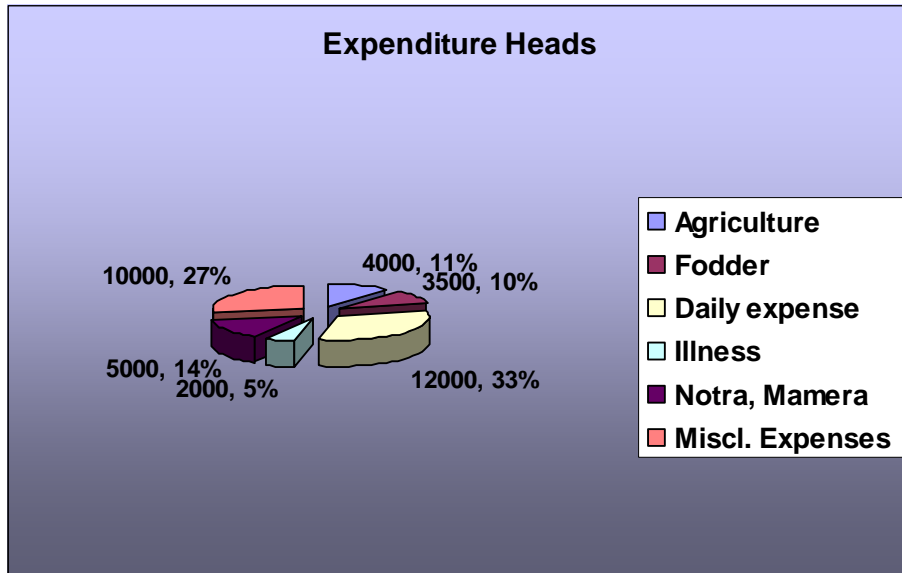
The major sources of income are the Agriculture and seasonal migration. Due to the erratic nature of rainfall the villagers are seldom able to grow two crops a year. The other sources of income that few households possess include livestock (cow, buffalo, bullock, sheep, poultry), trees of *Mahua* and *taad* etc. However the income derived from these is very little. Only if they have excess crop then they sell it in market that comes to around Rs.10000 on an average. Of this Rs.10000 they spend around Rs.5000 for day-to-day expenses in local *haat*.

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<sup>20</sup> Source: Perspectives on emergence of growth of MF sector in India

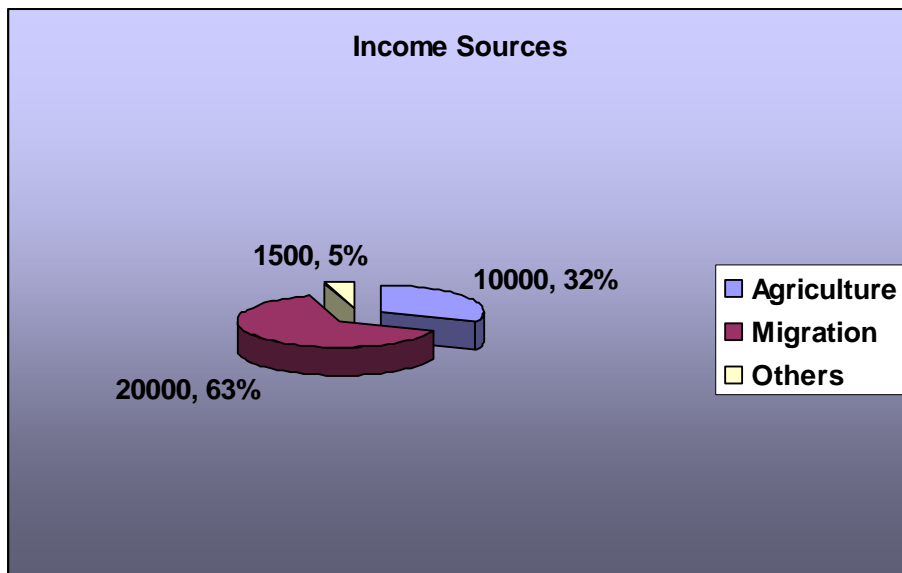
<sup>21</sup> This observation is based on the SHG of the Kalakuhnt village

**Figure: 5 Sources of Expenditure**



Source: Field observations

**Figure: 6 Sources of income**



Source: Field observations

## 9.2 Expenditure

In a normal year the total expenses of an average tribal family are around Rs.26000. A sizeable proportion of their income amounting to around Rs.12000 is spent on food, clothes and daily expenses. The expenses shown above do not include the imputed cost of the grains consumed that were grown in their fields only. The Fodder for animals costs around

Rs.3500<sup>22</sup>. Agri-inputs cost Rs.4000, which includes cost of seeds, fertilizers, pesticides and irrigation. Apart from the above expenses, small illnesses cost around Rs.2000 on an average. The tribal have the custom of Nyotra in which they pay cash to their relatives when there is a marriage in their house. The custom is that they have to double the cash that they had received from their relatives the last time. The total expenses incurred on this head are around Rs.5000. Apart from above expenses people spend around Rs.10000 on *alcohol, tobacco* and other narcotics. These expenses are financed by income generated from Agriculture, wage labor and other sources (poultry, goatry, and income from *Mahua, Taar* and Date trees), that is Rs.10000, 20000 and 1500 respectively. In case there is a deficit it is financed by loans from moneylenders. This loan is repaid by income from migration. In case the deficit that the family has incurred gets huge then more members go for migration.

There are three tribes in Jhabua Bhil, Bhilala and Pateliya. Bhil and Bhilala practice the custom of reverse dowry in marriage. Thus it is the boy who has to give dowry to the bride. The average spending in a marriage is more than Rs.50000. Of this around Rs.30000 is collected as *nyotra* from relatives and rest Rs.20000 is obtained from various sources of credit mainly the moneylenders. The details of marriage expenses and the detailed cash flows of the different stratum under normal circumstances are given below-

**Table: 2 Details of Marriage Expenses**

**In Rupees**

<b>Marriage</b>			
<b>Source of Income</b>	<b>Amount</b>	<b>Source of Expenditure</b>	<b>Amount</b>
Nyotra, Mamera	30000	Food	20000
Credit need	20000	Clothes	5000
(Repaid by income from wage labour)		Silver	11500
		Others	13500
<b>Total</b>	<b>50000</b>	<b>Total</b>	<b>50000</b>

Source: Field observations

<sup>22</sup> This is on the assumption that the family has a pair of ox and a buffalo. This is the usual pattern in Jhabua district.

**Annexure-2 Cash in flows and out flows of tribal family in normal year**

<b>In Rupees</b>															
<b>Cash in flows</b>		<b>Rich</b>	<b>%</b>	<b>Medium</b>	<b>%</b>	<b>Poor</b>	<b>%</b>	<b>Cash out flows</b>		<b>Rich</b>	<b>%</b>	<b>Medium</b>	<b>%</b>	<b>Poor</b>	<b>%</b>
<b>Agriculture</b>	}							<b>Agriculture</b>							
Rabi								Seeds	1000						
Kharif		22000	43	10000	27	5000	16	Fertilizers and Pesticides	2000						
<b>Wage Labourer</b>	}							Irrigation	1000	8000	16	4000	11	3000	10
November to February		12000						<b>Fodder</b>							
March to May		8000	20000	39	20000	55	20000	65	Grass, Paddy or Soya waste	3500	7	3500	10	3500	11
<b>Others</b>								<b>Food, vegetable and other daily expense</b>							
Poultry	}							(Approximately 200 per haat)	10000	15000	29	10000	27	10000	32
Goatry								<b>Clothes</b>		3000	6	2000	5	2000	6
Income from Date, Mahua or Taar		8500	17	1500	4	0	0	<b>Illness</b>							
<b>Credit need</b>		<b>1000</b>	<b>2</b>	<b>5000</b>	<b>14</b>	<b>6000</b>	<b>19</b>	<b>Small diseases not major</b>		2000	4	2000	5	2000	6
								<b>Notra, Mamera</b>		8000	16	5000	14	3000	10
								If marriage is not in person's home							
								<b>Miscl. Expenses</b>							
								Liquor, tobacco etc.		8000	16	6000	16	5000	16
								Others		4000	8	4000	11	2500	8
<b>Total</b>		<b>51500</b>	<b>100</b>	<b>36500</b>	<b>100</b>	<b>31000</b>	<b>100</b>	<b>Total</b>		<b>51500</b>	<b>100</b>	<b>36500</b>	<b>100</b>	<b>31000</b>	<b>100</b>

In order to repay the huge loans taken for paying the dowry the newly wedded couples are sent for their honeymoon to Rajasthan or Gujarat. There they work as daily wage labourers to earn money to repay the debt contracted for the marriage.

### 9.3 Credit Need

We see that there seems to be a deficit in the budget of the tribal. This deficit is fulfilled by taking credit from the various sources, formal or informal. The requirement of getting money for the purchase of agri-inputs is often met by the formal sources. This is visible in above table and from the table given below credit need in different situation can be known.

**Table: 4 Credit Need of Family at Different Times**

**In Rupees**

S. No	Case	Credit need for relatively better off family	Credit need for family	Credit need for poor family	Source
1	Normal year	1000	5000	6000	Mostly informal
2	Drought	5000	18,000	13000	Government schemes through banks, Informal sources
3	Marriage	20000	25,000	20000	Informal sources like moneylender etc
4	Illness	16000	19,500	20000	Informal sources like moneylender etc
5	Purchase of OX	10000	13,000	14000	Informal sources like moneylender and in some cases it is from formal sources.

Source: Field observations

### 9.4 Credit need met by formal sources

In order to map the credit need the cash flows over a time lime of ten years was made. The extraordinary expenses like the drought, disease, marriage and death ceremony were factored in with their frequencies of occurrence based on discussions with various development professionals. It was assumed that in a ten year cycle there would be four drought years, two

years of scanty rainfall, two occasions of marriage, two heavy illnesses and one instance of house repair and purchase of Ox. The credit needs of the different strata were found and weighted. This gave the average credit need of a single family for whole district. This data was extrapolated for whole district using the number of families in the district as given in the census of 2001 to obtain the total requirement of credit for the district. This came to Rs. 2994793750. On deducting the amount disbursed by the banks it was observed that 20% being met by formal credit sources and rest is the amount needed by other sources.

**Table: 5 Credit Need met by the formal sources**

	<b>Rich</b>	<b>Medium</b>	<b>Poor</b>
Total Credit need	123000	196500	168000
<b>Average Credit need per year</b>	12300	19650	16800
Number of families in Jhabua	12635	138985	50540
Credit need	155410500	2731055250	849072000
<b>Total Credit need</b>	<b>3735537750</b>		
From Formal Source*	740744000		
% of credit need met by formal sources	19. 8296484		
<b>Credit Requirement</b>	<b>2994793750</b>		
Total number of families	202160		
<b>Average Credit requirement per family</b>	<b>18478.125</b>		

\* This is based on the annual credit plan of 2005 prepared by the lead bank.

## **9.5 Sources of credit**

There are basically two sources of credit that is the formal and the informal sources. The credit facilities can be taken from two sources, formal and informal:

### 9.5.1 Formal

Formal credit sources have certain rules and procedures that a borrower should follow to avail credit facility. The main formal credit sources are scheduled commercial banks, regional rural bank, co-operative banks, non-banking financial corporation etc. Due to extreme formalization formal credit sources are often bureaucratic in nature. The transaction costs are also pretty high. During our field visits we observed the following problems with the formal credit sources-

- Insufficiency in terms of volume of loan extended to the SHGs.
- Delay in disbursal of loans (The villagers need credit at the time of crop sowing but in few cases it was found that they got it only after one or two months of crop sowing, when the credit does not have much relevance)
- Too many formalities have to be completed, which is extremely difficult for the illiterate tribal here.
- Very few Loans are provided for consumption purposes
- Collateral is needed for loan which is often absent

In Jhabua district, the important formal banking institutions are the Scheduled commercial banks, Central co-operative society, Regional Rural Banks, Adim Jati Seva Sahkari Samiti and the Self Help Groups (SHGs). Jhabua Dhar regional rural bank provides more than fifty percent of credit in the district.<sup>23</sup> Most of the loans provided to farmers are agricultural loans and there is very little proportion of Term loans. The managers of banks claim that Repayment rate is good in case of agricultural loan but very bad in the case of term loans. The best repayment rate in the district is of 'Jhabua Dhar Regional Rural Bank'.

#### 9.5.2 Self-Help Group

In case of SHGs bank provides mostly agricultural loans. Loans are provided to SHGs at 12 percent while the SHGs in turn charge 24 percent from the group members. Almost all SHGs in Jhabua follow NABARD model except few groups formed under the SGSY scheme. The general practice expected to be followed by bank managers in the district is that the first loan is to be given in the ratio of 1:2, second in 1:3 and thereafter in the ratio of 1:4 if SHGs repay all loans without default. Repayment rate of 'Jhabua Dhar regional rural bank' is 78 percent<sup>24</sup> from the SHG dealings.

### **9.6 Informal credit sources**

The informal sources like the moneylenders are the most important source of credit for the villagers. The other informal sources of credit include shopkeepers, friends and relatives. They are easily accessible to the villagers. They are available round the clock, 365 days a

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<sup>23</sup> Annual report, Lead bank Jhabua District

<sup>24</sup> Chairman Jhabua Dhar Regional Rural Bank

year. The terms and condition on which the moneylender lends the loan depends on factors like economic and social status, the urgency of the need and previous record of the borrower. It was observed that Money lending being a seasonal occupation, they were also running some other occupations like provision store and agriculture inputs apart from their money lending business. Generally they provide credit without any collateral but charge exorbitant interest rates. One important aspect of local money lending business is that they provide credit instantly at the time of need, which formal organizations fail to do and it makes the informal sources the first choice as a credit institution to poor. The procedure for providing credit is quite simple and does not need a lot of paper work. The number of loanings required by the people varies from four to eight times annually depending on the number of times the need arises. In some blocks, like Meghnagar and Thandala, the rate of interest changes according to need of person. In other blocks it remains constant for all circumstances. If person needs money desperately, then the rate of interest goes as high as 25% per month. The interest rates existing in the market are shown below.

**Table: 6 Interest Rate Existing in Informal Credit Market**

Name of the block	Rate of Interest	Interest (With collateral) <sup>s</sup>	Month when Loan taken	Repayment Month	Remarks
Ranapur	5-10%	3%	April-May	March-April	Generally Raipura <i>mela</i> practice is followed*.
Jhabua	5% or 10-12%	3%	April-May	After Akhateej (June)	Practice of loans from Holi to Holi found at Flat 50% per annum. Rate of interest depends on time o year. Just after Holi interest rate is 10% per month.
Meghnagar	5%-25%	5%	Whenever need arises	March-April	Rate of interest depends on the need.
Thandala	10-15 percent	10-25%	After <i>Diwali</i> (October-November)	Till Akhateej (May)	Rate of interest depends on the need
Alirajpur	50% for six months	25% for 6 months	April-May	After harvesting of Kharif crop	Short term rate is 10% per month.
Jobat	5-10%	3-4%	After <i>Akhateej</i>	After harvesting of	Rate of interest depends on the need

			(June)	Kharif crop	
Rama	10%	3%	At the time of need	Variable	Rate of interest depends on the need
Katthiwada			At the time of need	Variable	For govt. servant rate of interest is 2%.

Source: Field observations during the fieldwork

# All interest rates are per month

\* For details see the following paragraph.

\$ Mostly silver pawned

Apart from interest there is not any significant cost in taking the loan. In some cases persons have to spend Rs.100-200 for refreshment and fare for visiting to place of Mahajan or Sahukar.

#### 9.6.1 Raipura Mela

Raipura Mela has an important place in the lending process. Generally people take loan at the time of this fare and repay it at the next fare. The *Raipura Mela* is generally held within one month of *Holi* and hence mostly falls in the month of March or April. The interest for total period is fifty percent. This is quite low if seen in comparison of local money lending rate. An important feature of this system is that the borrower is expected to pay 1.5 times the loan amount at the *Raipura Mela* irrespective of the time of the year that he takes the loan. However this type of lending is restricted to Ranapur and Jhabua blocks. Another important aspect of this type of lending is that the repayment rates are close to 100%. This is so for if there is a delay of even a single day the interest of the full next year is added up. Thus people take loans from other sources for short periods to repay such loans.

#### 9.6.2 Recovery of loans

Moneylenders take a great risk by providing the loan without any collateral for consumptive purposes that seldom generate an income to fund the repayment of the loan. But they have their own ways to recover the money. The legal machinery is rarely brought into action. They use various tactics for recovery. One of the tactics used is that they are always in touch with the borrower and keep reminding him to pay back the loan. Also they accept money in smaller fractions, which are convenient to the borrower. The moneylender also uses social

pressure from the village '*Panchs*' and other influential persons. At the time of repayment, if borrower is not able to repay total amount then moneylenders were found to be extending the date of loan repayment on the basis of just the interest amount or some fraction of principal.

If the moneylender realizes that the borrower is in genuine trouble and would not be able to repay the loan then he also accepts the money in kind like animals, land or crops. If condition becomes hopeless then with the help of other villagers or the village headmen, he settles the loan at lesser amount with the borrower. In local language it is called '*Torana*' or 'breaking up' of the loan. The borrower is also under the fear that he may be ostracized from the community in case he does not repay the loan. People also fear, if they will not repay the loan then the next time they will find it difficult to obtain a loan from another moneylender.

There was little difference in terms of the credit practices being followed by the people in the different blocks. The difference was more in terms of the loan operandi than the amount of credit needed per family.

## **9.7 Credit cycle**

In the absence of any externalities like marriage, major illness or drought families need only small loans to meet the deficit in their income. They need to take credit only for agricultural inputs. This loan is taken in June for Kharif crop. Generally the repayment of this loan is after reaping the crop in November. Still, if they find difficult to repay then they repay it at Holi when they return from migration. The tribal families get trapped in debt traps due to the excessive loans that they have to take in case of illness or drought, or there is marriage in the family, which costs around Rs.50000. These externalities inflate the credit need without generating any additional income. The agricultural; income is insufficient to meet the debt incurred, thus leaving it to be financed from the migration income. In this case more members from family migrate and collect the money for repayment. If loan is big, they repay it next year or in more than two years.

**Table: 7 Time line of migration and credit requirement**

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
INCOME SOURCE			Agriculture (If Double cropping)								Agriculture	
	M1*	M1		M2 <sup>#</sup>	M2						M1	M1
Expenditure head SOURCE			Holi, Marriage, Nyotra			Agri inputs, Purchase of OX					Deepawali	
	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.	Other exp.
CREDIT NEEDED	Credit for illness or other purposes	Credit for illness or other purposes	Agri loan repaid, Loan for marriage, Credit for illness or other purposes	Credit for illness or other purposes	Credit for illness or other purposes	For agri-inputs, Credit for illness or other purposes	Credit for illness or other purposes	Credit for illness or other purposes	Credit for illness or other purposes	Credit for illness or other purposes	Agri Loan repaid, Credit for illness or other purposes	Credit for illness or other purposes

Source: Observations during the field visits made to the 8 blocks in Jhabua

\*M1 signifies the first phase of migration that is from the month of November to February.

<sup>#</sup> M2 signifies the first phase of migration that is from the month of March to May.

### 9.8 Migration Cycle

The primary need of people living in insecure livelihood systems is to find mechanisms to smoothen their cash flows<sup>25</sup>. This may be done by saving for contingencies or also moving to nearby districts in search of securer livelihoods. People in Jhabua migrate in two Phases. In the first phase they migrate just after Deepawali and return before Holi. On an average two or three members migrate from a family. The rest of the members stay in the village and look after the family's property and farms. In case of huge debt burden it is quiet possible that more members go to compensate for increased debt. If two people migrate then they are able to save around Rs.2000 per month after meeting all expenses. The Second time they migrate

<sup>25</sup> Fisher Thomas and Sriram M.S., "Micro – Finance and social and economic security" New Delhi , Vistaar Publications , 2002

is after Holi and return before Kharif crop season. On an average if a couple migrates twice a year then they can expect to save around Rs.12000.

## **10.0 LEARNINGS FROM THE BEST PRACTICES OF THE LEADING MFIs<sup>26</sup>**

An analysis of the best practices being followed by the different MFIs (microfinance institutions) in India reveals the following essential elements that have played an important role in the success of these institutions. ASA can learn from these and ensure that the concerns raised in these are addressed before the MFI is set up.

### **10.1 Governance and Institutional Linkages**

The governance system and institutional linkages are integral for the success of any MFI. They are basically dependant on the institutional linkages and the role of the board.

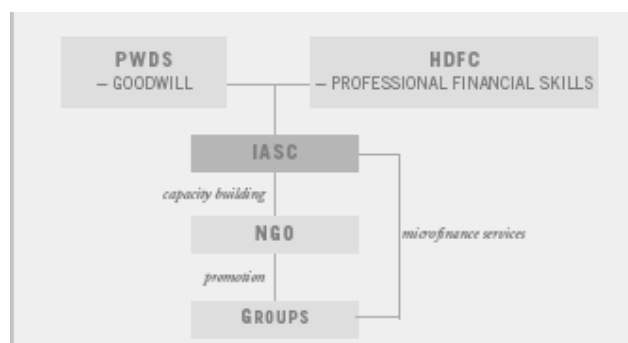
#### 10.1.1 Institutional Linkages

IASC, an MFI based in the Nagercoil district of Tamil Nadu, has established unique backward and forward linkages with its parent organizations and clients (**Figure 2.1**). The Palmyra Workers Development Society (PWDS), a prominent local NGO and the Housing Development Finance Corporation (HDFC), India's premier housing finance company have jointly promoted IASC. The MFI is a company registered under Section 25 of the Indian Companies' Act, 1956. IASC was started to provide credit services in its operational area at the southern tip of the Deccan peninsula.

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<sup>26</sup> These are based on the literature review done on the best practices being followed among the leading MFIs. The material draws upon insights gained from the MCriI's study done on Best practices followed by leading MFIs

**Figure 7: Institutional Linkages at IASC**



Source: Best practices followed by the leading MFIs: MCril

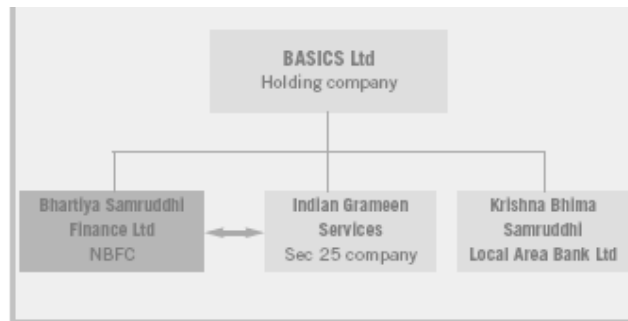
The support of these two established organizations has helped IASC manage its external environment and has provided it with the freedom and self-assurance to experiment with a low cost business model. It is the NGOs that promote the groups and provide them with the management skills necessary to undertake financial services for their members. IASC thus circumvents the need to develop group promotion skills and incur expenses on this activity. Instead it can focus on its core competence as a financial service provider. By working with groups that have been formed by NGOs, IASC reduces its costs and the risks associated with lending to new clients. The BASICS model is also dependant on the institutional linkages for its success. In this structure, Samruddhi is an NBFC with a focus on micro-loans; Indian Grameen Services (IGS) is the technical support organization that also provides microfinance and micro-enterprise research and consultancy services and the Local Area Bank provides both savings and credit facilities in its delimited operating area of three districts. The infusion of capital is the responsibility of the parent organization which has good networking with funding agencies like Ford Foundation and World Bank.

#### 10.1.2 Role of the Board

Prudent, ethical and effective governance is the cornerstone of any professionally Managed financial service enterprise. At Samruddhi, the governing board is comprised of the board members of the holding company (BASICS Ltd) and the nominees of various financial institutions that have invested equity in it. As a result, Samruddhi's board composition represents a fine balance between corporate and development management expertise. Eminent professionals from both these fields find place on it alongside renowned academics.

The company has also issued sweat equity <sup>27</sup> to its manager promoters with the objective of aligning the long-term interests of the promoters with the interests of the shareholders. In order to obtain inputs from other stakeholders, Samruddhi conducts quarterly review meetings (BASIX Quarterly Reviews or BQRs). It invites a number of people representing stakeholders from different institutions for these meetings. This formal mechanism for obtaining feedback from stakeholders representing different sets of interests has proved to be very useful. It has contributed significantly to policy decisions taken by the board towards improving operations and maximizing the benefits derived from the presence of the board members.

**Figure 8: Ownership at BASICS**



Source: Best practices followed by the leading MFIs: MCRI

## 10.2 Operational strategy

Operational strategy is perhaps the most important feature of the successful MFIs. “Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder expectations<sup>28</sup>. The three aspects of operational strategy, critical for microfinance are:

- Client development & expansion
- Competitive response
- Organizational structure

<sup>27</sup> Equity acquired by a company’s executives on favorable terms to reflect the value the executives have added and will continue to add to the company.

<sup>28</sup> Johnson G, and Scholesk, 1998. **Exploring Corporate Strategy**. Prentice Hall of India Private Limited

### 10.2.1 Client development & expansion

Client development and expansion strategy impacts the type of clients of the MFI, the retention rate, portfolio quality and the organization's cost structure and efficiency.

The best practice MFIs have a well-defined strategy that not merely lays out the target clientele but also defines the path to the systematic scaling up of operations. The deployed strategy includes the use of appropriate communication tools for client promotion, responsive, client friendly and competitively designed products and other measures to tackle competition. Such practices lead to the ability to grow faster and increase the outreach of the MFI's financial services.

### 10.2.2 Competitive response

SEWA leads by example as to how competitive rivalry can be met. The main threat to SEWA Bank is the low barriers to entry though the power of buyers and suppliers and the threat of substitutes are low. SEWA Bank's response to competition has been through a three pronged approach

- Deeper product mix including daily savings as well as quickly disbursed daily (instalment) loans and greater product differentiation
- Renewed efforts at brand positioning as a “trustworthy bank for the self-employed poor” – invitations to new clients to visit

SEWA Bank's branch

- Better client services including doorstep collections by trained community workers (Bank Saathis) and bank field staff (“Handholders”)

### 10.2.3 Organizational Structure

The organization structure of an organization is also one of the key determinants of the operational success of the MFI. *Samruddhi* has a decentralised organizational structure divided into units formed on the basis of geographical areas. In this decentralised structure each Unit functions as a profit centre while *Samruddhi*'s Head Office is essentially responsible for strategy. The Head Office particularly defines strategy related to fund mobilization and expansion. It also defines the operational policies such as those related to

portfolio management, recruitment, staff training and compensation. These roles are not fulfilled through a master plan, but rather strategic control is built through business plans that are developed by the Units and agreed by the Head Office. This two-way relationship helps both entities function efficiently and work towards achievement of organization's mission.

### **10.3 Products and delivery**

“Products are anything that can be offered to a market to satisfy a want or need<sup>29</sup>” Thus, products drive the growth and sustainability of an organization and form the basis for determining the quality of the interface between the MFI and its clients. Products need to be complemented by an MIS that is able to monitor their status efficiently and provide information on the characteristics of clients. Products form a critical part of the competitive strategy of MFIs and variation in product features and promotional strategies is the key determinant of market share. The products should always flexible and client-friendly and designed as per the contextual needs of the people. Also there should be a comprehensive product mix catering to a wide range of financial services.

### **10.4 Management Information Systems**

An efficient MIS is a must for the effective monitoring of the loaning and generating reports for analysis. The reports generated regularly should be sufficient to provide

### **10.5 Internal control for risk management**

While MFIs employ a number of ways to maintain control over their operations, the critical ones are Portfolio control and internal audit.

#### **10.5.1 Portfolio Control**

MFIs provide small loans to a large number of clients and are thereby handling a large number of transactions. The sheer volume of transactions requires that risk be reduced both before disbursement – through client appraisals – as well post-disbursement through a regular

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<sup>29</sup> Kotler, P, 2001. Marketing Management. Prentice Hall of India Private Limited

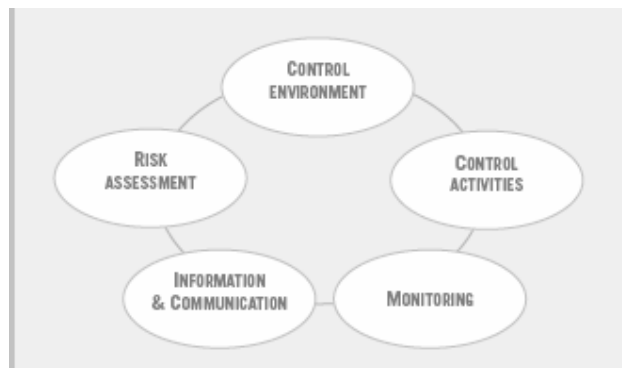
and comprehensive portfolio tracking system. Portfolio control thus performs the preventive and feedback function in the larger internal control system and this is what makes it such a critical aspect in microfinance operations. Tracking enables regular monitoring of both financial (credit and liquidity) as well as operational (transaction and fraud) risks while also giving a picture of operational performance.

### 10.5.2 Internal Audit

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” – The Institute of Internal Auditors, USA

Internal control focuses on evaluating the operations ex-post for risk management and compliance. The board uses the internal audit report to make policy decisions, which lead to further improvement and implementation of control measures. In the business of managing money, good internal control systems are crucial to ensure process and financial compliance and to maintain regulator and investor confidence.

**Figure 9: Factors in Internal control**



Source: Best practices followed by the leading MFIs: MCriI

## **10.6 Financial management & accounting policies**

Good practice in financial management and accounting provides financial benefits, long-term direction and stability to the operations of microfinance institutions. With increasing scales of

operation and more complex financial products, MFIs need to place greater emphasis on enhancing technical capabilities to undertake financial management. Further, the ever-increasing scale of transition since the late 1990s from largely grant-based operations to more debt-financed operations requires a parallel improvement in financial management techniques. The Diversification of sources of funds and Focus on long-term financing to lower the funding risk are also important for the sustainability of the MFI.

### **10.7 Human resource management**

Human resource management is “a process consisting of the acquisition, development, motivation and maintenance of human resources<sup>30</sup>.” The people are the most important resources of any organisation. All the strategies are anyways to be implemented through the staff of the MFI. The successful MFIs have realised this fact and invested heavily on their staff. The issues that need to be taken care of can be represented in the following figure.

## **11.0 FEASIBILITY OF THE MICRO FINANCE INSTITUTION**

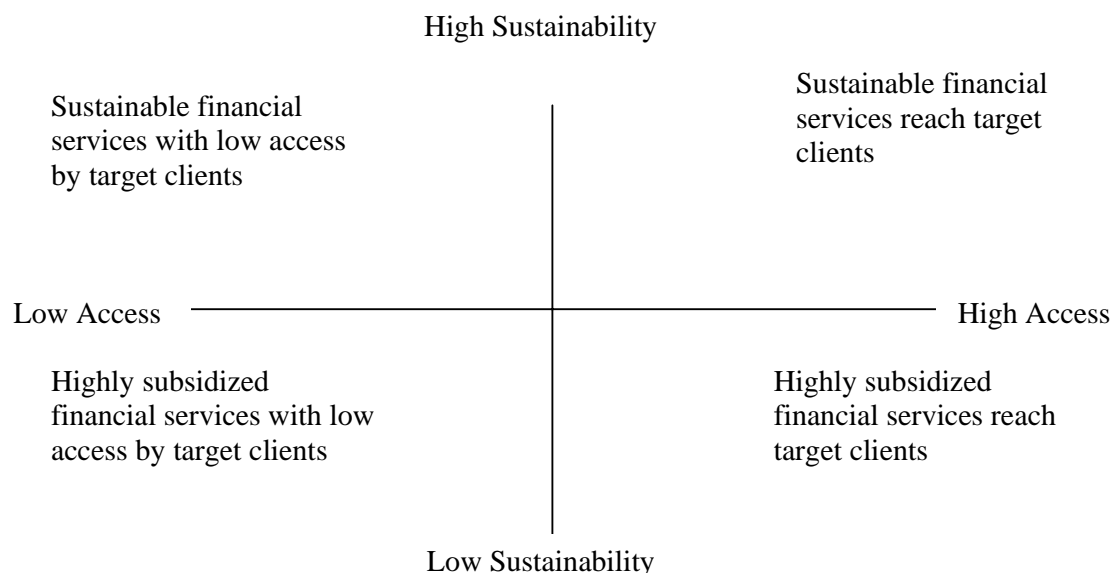
International debate with respect to the sustainability of the MFIs has been dominated by two schools of thought, which can be called the finance school and the poverty school. The former celebrates the mainstreaming of the micro-credit as a financial service while the latter emphasizes the need to reach the poor people and may be suspicious of financial sustainability, believing it is likely to take the Micro-credit provider away from the focus on reaching to the poorer clients<sup>31</sup>. A delicate balance needs to be maintained between the two. The complexity of the process can be demonstrated with the help of the following matrix.

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<sup>30</sup> DeCenzo DA & Robbins SP, 1997. Personnel/Human Resource Management. Prentice-Hall of India

<sup>31</sup> Fisher Thomas and Sriram M.S., “Beyond Micro – Credit: Putting Development Back into Micro – Finance.” New Delhi , Vistaar Publications , 2002

**Figure: 10 The balance between sustainability and access**



**Source:** Fisher Thomas and Sriram M.S., “Beyond Micro – Credit: Putting Development Back into Micro – Finance.” New Delhi, Vistaar Publications, 2002

The source of income for a Micro Finance Institution under the ASA model would be the interest rate differential between the rates at which it is getting the funds and the rate at which it is disbursing them to the federation. ASA assumes that it would get the loan at a rate of 12% and lend the same to the federation at the rate of 18%. This would give it a margin of 6% as income of the MFI. The sources of expenditure for an MFI would not only include the administrative overheads but it would also have to provide for sufficient funds to cover the risk of bad debts. However the analysis shows that the model is unsustainable even at the interest rate difference of 8% not considering the presently planned difference of 6%. This was in spite of taking extremely high repayment rates of above 90% even though the existing interest rates tell an altogether different story. Presently the program is new and also the stakes of ASA are not high enough to ensure stringent monitoring of SHGs to ensure payment of the Service charge etc. Therefore the repayment rates of the existing groups are low and recovery of Service charges has been around 80% at best. Still we may assume that later on when the MFI is established, stakes of ASA would rise and the repayment rates may reach to the national average of around 90-95%. Therefore an increase in the margin and better repayment rates are a must for financial viability.

The NABARD guidelines say that the refinance agency is expected to lend to the MFI at the rate of 8 to 10 percent<sup>32</sup>. This implies that there is certainly a possibility of an increase, as even if ASA lends to the federation at the rate of 18 % it would get a margin of 8%-10%. The analysis of the feasibility of the MFI at the different interest rates has been shown in the annexure 11 to 26. This is an optimistic scenario based on the target set by ASA. It shows that in order to be feasible the MFI needs a minimum margin of 8 percent when it would turn into profits in the fourth year. If it is able to obtain a margin of 9 percent then it would break into profits in the third year itself. This assumed a repayment rate of 95% that is not always possible. Also the profits would be influenced by scale of expansion of the number of SHGs. A pessimistic scenario has been generated and attached in the annexure 27 to 39 and also in the risk section. The feasibility of the federation has also been worked out under the different possible scenarios. (Annexure 2 to 10)

The financial projections by themselves are not sufficient to conclude the feasibility of the initiative. There are certain other important issues that need to be addressed. Micro Finance can be seen as an industry or as a social sector. Seen as an industry it should always be able to cover the cost of credit management, cost of default and also the cost of devaluation (difference from its spread between cost of borrowing and lending)<sup>33</sup>. An important pitfall that is to be guarded against is the excessive focus on the financial feasibility of the MFI rather than the social and economic feasibility. The financial viability includes the recovery of full cost plus certain capital formation for future sustainability.

The financial viability of a project can be increased by either decreasing expenses that is often difficult given the limited scope available for it while dealing with the diverse clients with different needs or by enhancing income. Income can be enhanced only when there is a minimum level of scale. This scale can be achieved by either charging higher interest rates to the clients or increasing the volume of business. The clients are clearly unable to afford the increased cost of credit. Therefore in an attempt to increase the volume of loan the MFI tries to disseminate a larger amount of loan to the clients. This gives an incentive to the field

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<sup>32</sup> <http://www.nabard.org/whats/8circjm2005.pdf>

<sup>33</sup> Perspectives on emergence of growth of MF sector in India

workers to select better off clients rather than the poor i.e. those clients who have higher loan absorption capacities. It also helps in reducing the risk of losses from Bad debts<sup>34</sup>.

ASA needs to guard itself against an excessive focus on sustainability and profitability, which might lead it to try and make larger loans to better off clients in order to minimize expenses and default risks. Although this enhances the sustainability but it also reduces the actual credit flow to the poor. Although the financial feasibility would be met but how far the social feasibility would be met is questionable. So there is a need to balance both ends even though it's easier said than done. The need for sustainability can not be discounted as without it an MFI is not a going concern, making the goal of poverty alleviation unreachable (Otero, 1999)<sup>35</sup>.

### **11.1 Federation: To Be or Not To Be**

There were thoughts going around the MF cell of ASA that whether they actually needed another layer in between them and SHGs. There were speculations as to can this layer be removed and MFI can directly loan to the SHGs. Finally the role of federation needs to be seen in the light of the service it is providing and the cost it is incurring. The organization can benefit in the following manner if the federation is removed and its role is also undertaken by the MFI:

- **Pros**
  - There would be savings in cost on account of lower overheads and an integrated staff.
  - The SHG members would benefit from the fact that there would be one layer less to negotiate. This would mean fewer amounts of paperwork and more efficient service at lower transaction cost.
  - The MFI would be better able to control the members as it would be directly dealing with the SHGs. This is expected to improve the repayment rates.

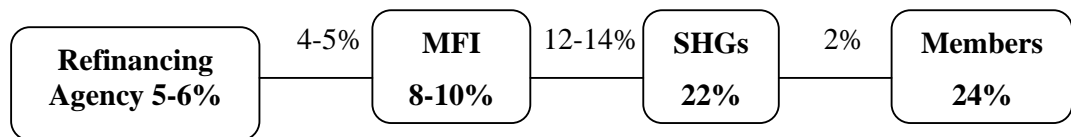
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<sup>34</sup> Micro credit in Rural Bangladesh

<sup>35</sup> Tucker Michael and Miles Gerard , “ Financial Performance of Microfinanc Institutions : A comparison to performance of Regional Commercial Banks by Geographic Regions.” , Journal of Microfinance , Volume 6, No. 1, p 41 – 79

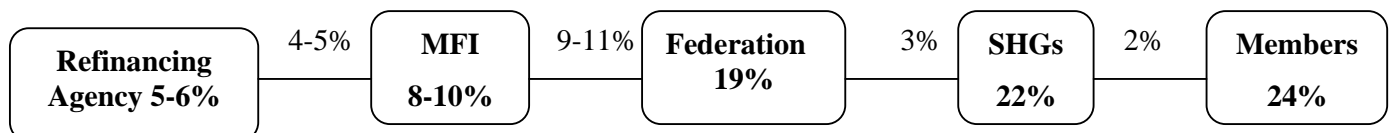
- There would be lesser conflicts among the staff as they would have a common interest.
  - The MFI can enjoy the benefit of having interest rate margins of about 13%.
- **Cons**
  - The financial impact of the removal of federation is not going to be significant. (Annexure 45-48). Thus if seen from the financial angle it is not a very profitable proposition.
  - The MFI may not be able to do justice to the role of federation as it may be too busy with other things. The federations being block wise are definitely in a much better position to serve the clients in their region. A centralized MFI may not be able to do justice to all the blocks. (The Power of Local Knowledge!)

**Figure: 11 Possible Interest Rate Structure**



**Change in the structure:** It was also contemplated that since the MFI is bearing most of the risk it can afford to lend to the federation at the rate of 19% rather than the proposed 18% thereby giving it a lesser margin. The financial calculations done to find the feasibility of the federation at the reduced interest margin show that it can still sustain itself at a margin of just 3% given that the service charges are deposited regularly by the SHGs. However we believe that this change should not be done as the federation needs more funds to undertake developmental activities as profit making can not be the sole motive of an MFI (Annexure 40 to 42).

**Figure: 12 Possible Interest Rate Structure**



Given the above mentioned pros and cons of the change in the structure it makes little sense to change it without any significant change in the viability of the federation. The inertia of the existing structure that is working pretty smoothly should be allowed to continue till a stage is reached where the MFI is strong enough to sustain the SHGs without the hand holding support extended by the Federation. Moreover financial feasibility is not the only thing for the federation. It serves other important purposes like providing a platform to the people for collective voice and also empowers the people in the process.

## **12.0 RISKS**

### **12.1 Financial risks**

The MFI being set up is likely to face the following three important risk factors.

1. Repayment risk
2. Interest earning risk
3. Scale risk

The comparative analysis of the feasibility of the MFI at different levels of Risk has been done in the table shown above. In the first scenario an optimistic viewpoint has been taken where ASA expects the number of SHGs to reach 3000 by the year 2009. In the second a more pessimistic scenario has been taken wherein the number of groups has been assumed to reach till 2400 only. On comparison of both the tables it can be seen that there is not much difference in income figures trend under different scenarios. The trend of net income being positive or negative is maintained for both the scenarios, the only difference being in the degree of profit/loss. This is attributed to the fact that because variable cost is very high as compared to the fixed cost and hence the scale would not make much of a difference.

**Table: 8 Income of MFI in Different Scenarios (Scale-3000 SHGs)**

**In Rupees**

	Interest differential Percentage	Repayment rate in Percentage	Year 1	Year 2	Year 3	Year 4	Year 5
<b>No. of SHGs</b>			700	1150	1600	2400	3000
<b>Savings</b>			4715577	12594822	23768441	40699536	62248020
<b>Credit disbursement</b>			9431154	18086354	42177419	66902426	101913900
<b>Income</b>	8	90	-1576072	-1754818	-2544208	-3362832	-4482110
	8	95	-1066790	-778155	-266627	249899	1021241
	8	97.5	-812149	-289823	<b>872163</b>	<b>2056265</b>	<b>3772916</b>
	9	90	-1491192	-1592041	-2164611	-2760710	-3564884
	9	95	-977194	-606334	<b>134058</b>	<b>885472</b>	<b>1989423</b>
	9	97.5	-720195	-113481	<b>1283393</b>	<b>2708563</b>	<b>4766577</b>
	10	90	-1406312	-1429264	-1785014	-2158588	-2647659
	10	95	-887598	-434514	<b>534744</b>	<b>1521045</b>	<b>2957605</b>
	10	97.5	-628241	<b>62861</b>	<b>1694623</b>	<b>3360862</b>	<b>5760237</b>
	11	90	-1321431	-1266486	-1405417	-1556466	-1730434
	11	95	-798002	-262694	<b>935429</b>	<b>2156618</b>	<b>3925787</b>
	11	97.5	-536288	<b>239203</b>	<b>2105853</b>	<b>4013161</b>	<b>6753898</b>

**Table: 9 Income of MFI in Different Scenarios (Scale-2400 SHGs)**

**In Rupees**

	Interest differential Percentage	Repayment rate in Percentage	Year 1	Year 2	Year 3	Year 4	Year 5
<b>No. of SHGs</b>			700	1000	1600	2000	2400
<b>Savings</b>			4715577	11588622	22727024	36938470	54330516
<b>Credit disbursement</b>			9431154	17583254	39895861	62228430	91682983
<b>Income</b>	8	90	-1576072	-1740731	-2480324	-3231960	-4195644
	8	95	-1066790	-791235	-325948	128375	755237
	8	97.5	-812149	-316488	<b>751241</b>	<b>1808543</b>	<b>3230678</b>
	9	90	-1491192	-1582482	-2121261	-2671904	-3370497
	9	95	-977194	-624194	<b>53063</b>	<b>719545</b>	<b>1626226</b>
	9	97.5	-720195	-145051	<b>1140225</b>	<b>2415270</b>	<b>4124587</b>
	10	90	-1359156	-1364286	-1590510	-1858949	-2171826
	10	95	-887598	-457154	<b>432074</b>	<b>1310715</b>	<b>2497214</b>
	10	97.5	-628241	<b>26386</b>	<b>1529210</b>	<b>3021997</b>	<b>5018496</b>
	11	90	-1321431	-1265983	-1403136	-1551792	-1720203
	11	95	-798002	-290113	<b>811084</b>	<b>1901885</b>	<b>3368202</b>
	11	97.5	-536288	<b>197823</b>	<b>1918195</b>	<b>3628724</b>	<b>5912405</b>

To further understand the financial feasibility of the MFI various possible scenarios have been calculated for repayment rates of 90%, 95% and 97.5% and interest margin of 8%, 9%, 10% and 11%. The interest rate margin is the difference between the rate at which it would obtain loan from external sources and the rate at which it would extend to the federation. If this margin is reduced to a rate of 8% then it can be seen in the table that the MFI would find it hard to sustain itself.

The average repayment rate for the SHGs is around 95%<sup>36</sup>. If we assume this rate for the MFI then the MFI will earn income from third year in case of 9,10 or 11% interest earnings and in 4th year in case of 8% interest earnings. In case of 90% repayment rate MFI would not be feasible as interest earning would be less than the bad debts. In case of 97.5% repayment rate MFI would become profitable in second year itself and afterwards it would be able to earn a good chunk of profit.

Therefore the major risk that the MFI would face is due to the repayment rates of the SHGs and the interest rate margin that the MFI is able to maintain. A high debt percentage would certainly spell doom for the MFI. The same also applies to the interest rate risk. Therefore a sound repayment rate and higher interest income are very critical for the financial feasibility of the MFI.

## **12.2 Other Risks**

Apart from the above mentioned financial risks there are certain other risks that the MFI is likely to face. These include

- The SHGs may switch to a different financial intermediary for their savings or loan requirement and the new provider may be able to provide a better deal as it did not have to incur the customer development costs. This is especially likely in this model as unlike the Grameen bank model here the groups are not tied to the service provider<sup>37</sup>

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<sup>36</sup> <http://www.un.org.in/gender/microcredit.htm>, <http://www.germanembassy-india.org/en/germannews05/Jun/pg20.html>

<sup>37</sup> Harper Malcom, "Self Help groups and the Grameen bank groups: what are the differences," Micro – Credit: Putting Development Back into Micro – Finance." New Delhi , Vistaar Publications , 2002

- The MFI being formed by ASA is still dependant on the external funds for its viability. The funds that it assumes to be there may not be available at the required time or even if they are available the continuity may not be there. Further the cost of obtaining funds may also increase later on which may make the project infeasible to sustain.
- Presently the whole Microfinance program is ASA relies on one key employee who has been there since the idea of the establishment of an MFI has come into being. He is the only person in the organization who has the knowledge of people in the area, as he has been associated for a long time with the MF program of ASA. If he leaves the organization at this crucial juncture then the organization would definitely face difficulty in finding a suitable replacement for him.
- There are also few political risks associated with the project, as the interest rates for the social sector are often dependant on the political environment. This in turn is influenced by the policies of the government, Reserve Bank of India (RBI) and NABARD. The NABARD guidelines may change the whole credit scenario that may affect the viability of the initiative. However given the present trend this is a very remote possibility.

## **13.0 RECOMMENDATIONS**

It is evident from the discussions done in the report till now that the major problems that ASA is facing are on account of the low repayment rates that are presently found to existing SHGs. The analysis done has revealed that these were primarily on account of three factors that is the absence of systems and processes to monitor the group regularly, absence of skilled human resources and poor quality of SHGs. Therefore before ASA embarks upon establishment of an MFI it needs to address the following critical factors need to be given immediate attention. There are other important factors that demand attention in the long term if the MFI wants to sustain itself. These have been listed separately.

### **13.1 Critical factors before the establishment of an MFI**

These are the critical factors which a MFI should take in to consideration before establishment-

### 13.1.1 Monitoring system

The monitoring system at present seems to be inadequate given the fact that very soon a MFI is going to be formed. The repayment rates of the loans and service charge are poor at present. This is mainly on account of lack of monitoring. The BASIX experience shows that there needs to be an efficient system of internal checks and balances that ensures that the clients that need the attention are immediately highlighted. Also the field observations made by the authors prove that the villagers are capable of repaying the loans and it is only due to the lack of pressure to repay that they default in the loans given by the banks. They seldom default on the loans of the local moneylender, as they know that ultimately they will have to repay it. It was found that the bankers are able to get 100% of their loans from the defaulters when they are pressurized to repay. This pressure on the members can be built with the help of a proper monitoring system. An efficient monitoring system is one of the most critical elements in ensuring high repayment rates.

- Staff incentive: Presently the field staff has no incentive to work harder to ensure repayment at the SHG level. Although theoretically a disincentive exists in the sense that their salary is derived from the service charge payable by the SHG, but in practice only 50-60% of the SHGs are found to be paying the service charge and the deficit is met by ASA. Hence the group workers are complacent with respect to their duties in terms of regular savings and contribution if the fees by the SHGs. This incentive structure is conspicuous by its absence in the higher echelons also. Therefore we recommend that the salary of all the staff till the block coordinator level be made semi variable with a provision of bonuses in case of superior performance. The amount of incentive can range from 250 Rs for group worker to 1000 for the block coordinator. This is going to have two important effects viz.
  - It would give an incentive for better performance.
  - This would also lead to an increase in the salary of the employees. This is extremely important for on comparison with the salary structure of the other MFIs it was found that the salaries paid are less than the market rate. This acts as a deterrent for competent professionals willing to work in such a challenging environment.

- **Management Information Systems:** A management information system captures data, processes it and provides relevant information for control, analysis and decision-making at the operational and strategic level in a cost efficient and timely manner<sup>38</sup>. ASA lacks an effective MIS system as the McFinancier software being used by it fails to report all the parameters needed for effective monitoring. The MIS should be user friendly, contextually relevant, flexible, easily upgradeable, stable and provide timely, accurate and reliable information. McFinancier lacks adaptation to the local needs. Also it was found that database is not being updated regularly. An efficient MIS is a must for the effective monitoring of the loaning and generating reports for analysis. Therefore the organization needs to immediately ensure that MIS is maintained properly and also there is a quick follow up based on the reports generated by the software. The MIS can also utilized for tracking the movement of overdues through an ageing analysis to assess delinquency risk.
  
- **Internal audit:** Microfinance is an activity with large volumes of small transactions and hence practitioners must put in place internal control mechanisms to prevent and detect fraud and to avoid deviation from organizational norms. ASA can look into multiple levels of evaluation including corroboration of client data with guarantors and drawing from the experience of other staff<sup>39</sup>. The detailed audit reports should be continuously monitored by the program leader.

### 13.1.2 Human Resource Development

- **Personnel and staff development:** ASA staff at present lacks the competencies required in the staff of an MFI. It needs to realize that Staff training is a must for managing the operational issues of an MFI as the staff skills required for it are much different from the conventional skills required in a job. The staff will also need to be from diverse fields ranging from social sciences to those having a specialization in finance. The remuneration to be paid to the staff should include not only the cost of retaining the employee but also to provide for his growth. Therefore ASA needs to

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<sup>38</sup> Best practices followed by the leading MFIs: MCril. pdf

<sup>39</sup> SKS Sangam managers appraise applications individually, with group members and discuss them with other staff in meetings helps in risk assessment.

invest sufficient amount of funds into training the existing staff and also recruiting the new competent staff that is capable of managing an MFI.

### 13.1.3 Capacity Building of SHGs

- **Capacity building of the SHGs:** The existing SHGs of ASA lack the knowledge of the reason for their existence. The members perceive the reduction in interest rate as the only benefit of an SHG. The members of the SHG need to be educated of the other benefits of an SHG and also a sense of financial discipline needs to be brought into them before they are linked up with an MFI. Even previous studies done for ASA have shown that ASA currently is forming Savings and Credit Groups rather than a Self Help Groups. Unless the SHGs are motivated to take up income generating activities along with the savings and credit there would not be a significant change in their lives despite the existence of SHGs.

## **13.2 Other important factors**

- **Governance and Institutional Linkages:** A governance system can be defined as *“what manages the relationship of an institution with its stakeholders or, more broadly, its relationship to society<sup>40</sup>”*. This is important for ASA as in order to succeed in the long run it would definitely need the help of the different institutions that can provide their know how and also network with the important stakeholders. The two important factors that ASA needs to take care of is the composition of its governing board and the institutional linkages with different Banks, Donors other successful MFIs.
- **Financial management:** ASA needs to allocate sufficient resources for the development of an MIS that generates timely performance reports and the necessary projections. In a previous study questions have been raised over the capability of the present software that it is using ie. McFinancier. (Raman, 2004). However even if the software is improved, it needs to be realized that the reports per se would not improve the performance of the SHGs unless concrete action is taken based on the reports generated by the software. The software is just a tool and the dexterity by which it is used depends on the staff of ASA.

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<sup>40</sup> Adapted from an article that appeared in the Financial Times, 1997

- **Decentralization and Financial Autonomy:** The degree of decentralization and financial autonomy would also have an important bearing on the overall bearing of the functioning of the MFI. There needs to be a balance between the level of decentralization and the autonomy being given to the staff at the field level. Although the financial autonomy can be slowly passed on to the field level the delegation of other responsibilities is must for the sustainability of the MFI. This would also entail the capacity building of the field level employees.
- **Growth:** The organization also needs to ensure how it is going to reach the critical number of beneficiaries that is going to break-even the initiative. A concrete plan for scaling up the operation to cover a larger population base needs to be formulated. However the organization needs to keep in mind that its ultimate objective is to provide financial services to the poor and not make short-term financial gains by extending credit to borrowers who are moving up the pyramid of poverty. This can be ensured by timely monitoring of the size of loans and the borrowers to which they are going.
- **Sources of capital:** Expansion into new areas would definitely require increased funding. Also the financing mix would also need to undergo a change, as there would be a requirement of an efficient mix of grant funding with bank financing. The grant funding may be required in the initial stages, as the losses of the initial years may need to be compensated by these grants. Gradually the organization would need to eliminate subsidies to make it a financially sustainable institution.
- **Methodology and operations management:** In order to move forward in the role of financial intermediation ASA needs to perfect its lending methodology and concentrate most of its time and resources towards the financial services it wants to provide. It needs it focus on three important aspects viz. its capacity to disburse large number of loans, lowering of the transaction costs and ability to maintain a financially sound portfolio.
- **Self-sufficiency and financial standing:** It needs to be very clear in the mind of establishment of an MFI is much different from the establishment of an ordinary business entity. The organization has to justify the trust that would be placed on it by thousands of poor people. Therefore it needs to make sufficient provisions for building up a loan loss reserve fund. Being dependant on the external agency further enhances the risk faced by

ASA. Therefore it needs to try and move towards self-sufficiency. It needs not only be operationally efficient but also cover the financial cost of borrowed money by charging the required interest rate from the borrowers.

## **14.0 CONCLUSION**

Any Micro-Finance intervention is going to have all three implications that is ranging from financial, economic and social. Therefore although financial feasibility may be a necessary condition for the sustainability of the MFI, but it certainly is not the only condition. The MFI is going to have huge economic and social impact also on the people affected by the intervention both directly and indirectly. An MFI is expected to provide the much needed capital to the budding entrepreneurs of the region. Also it is expected that the people would become socially more advanced as they come into touch with the outside world. Therefore the financial losses that may happen in the first few years should not discourage the MFI from undertaking the initiative. However it does not imply that financial viability of the project is inconsequential. It just emphasizes that ASA should keep the overall objective of the initiative in mind throughout the intervention. Therefore it should resist from entertaining the richer clients at the cost of the poorest of the poor in the name of financial feasibility.

One of the important issues that the organization would need to address is that even the members who belong to a relatively old (3-4) SHG would not be able to meet half the credit requirement of the household as he would get just around 4000-5000 rupees. The only significant impact would come after around five years when a member would be eligible for a loan of 10,000 approximately. Thus in order to bring a significant impact on the livelihoods of the people here either the SHG need to be sustained over a long period of time or a simpler method would be to educate the members about the other benefits that they can have from n SHG. Presently it was observed that the groups are functioning more as a saving and credit group rather than a SHG. Therefore emphasis needs to be laid upon motivating the members to start some income generating activities that are suited to the local context like poultry etc. The tribal lifestyle tends to have a certain degree of inertia associated with it. Therefore it would be naive to expect a drastic change in their lifestyle and it would be difficult to prevent migration for more secure livelihoods. However what can be done is that activities like poultry etc to which they already have an exposure can be a taken up as a good entry point

activity. These activities when taken up in a group would certainly foster the "cooperative-spirit" among the members and pave the way for future income generating activities that are expected to bring about a significant impact on the livelihoods of the poor.

The study has tried to assess the feasibility of opening up an MFI and tried to bring out the important factors that need to be addressed before the MFI is set up. However in order to develop the microfinance products a further study with more detailed household level sampling is necessary.

Thus to conclude the potential for an MFI in the Jhabua district is huge but to make it a sustainable activity the repayment rates for the SHGs need to be improved by proper monitoring. This is critical for the financial sustainability of the project. Also the SHGs need to be transformed from being just a savings and credit group to groups who undertake some income generating activities as it is only then that the real potential of the SHG would be realized.

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**Web Based Resources:**

[www.basixindia.com](http://www.basixindia.com)

[www.dhan.org](http://www.dhan.org)

[www.myrada.org](http://www.myrada.org)

[www.nabard.org](http://www.nabard.org)

[www.rbi.org.in](http://www.rbi.org.in)

[www.ruralfinance.org](http://www.ruralfinance.org)

### **Annexure-1 Assumptions for cash in flows and out flows of tribal family**

- The Family is assumed to have seven members, comprising of four adults and three children.
- Family owns three animals, a pair of Ox and a buffalo.
- The fodder cost that has been taken in the cash flow is that which has to be purchased from the market. The imputed cost of fodder that is available from crops has not been included.
- Two members of the Household are assumed to be going for migration from a family in a year.
- It has been assumed that there is no double cropping. Even if there is some it is not substantial.
- Approximately Rs.5000 income of agriculture is used for daily exp. By selling produce to weekly Haat, this income is taken in Agricultural income and expenses are taken in Daily exp.

## **Annexure-2 Assumptions in breakeven analysis of federation**

- It has been assumed that all the SHGs would be linked with the bank and the NABARD guidelines with respect to the loaning would be followed.
- All the overheads and salaries of the employees have been increased at the rate of 10% per annum.
- The number off the groups in the first year is assumed to be 150 at the time of the formation of the federation. In the next year it has been increased by 100 SHGs and in the subsequent years by 50 SHGs each till the limit of the federation that is 400 SHGs is achieved. The increase has been by 100 SHGs in the earlier years because at that stage the potential for expansion would be much greater than the subsequent years when the saturation would take place.
- It has been assumed that after five years of regular savings the SHG would no longer be in need of fund, as it would be met through the internal loaning of the group. Therefore the federation would not get the interest rate differential of 4%.
- The repayment rates have been increased progressively as it is expected that the efficiency of the organization would increase leading to better repayment rates. Also as the intervention gets older people are more likely to recognize the benefits of the programme and abide by the norms.
- The average size of the SHG is assumed to be 13 members.
- Average saving per month per member has been taken as Rs.43 that is the current average savings per month per member in SHGs, which has been formed by ASA.

### Annexure-3 Cumulative SHGs over the period

<b>Total Number of SHG in a Federation</b>							
	1st year	2nd year	3rd year	4th year	5th year	6th year	7th year
<b>1 year old</b>	50	50	50	100	50	50	50
<b>2 year old</b>		50	50	50	100	50	50
<b>3 year old</b>			50	50	50	100	50
<b>4 year old</b>				50	50	50	100
<b>5 year old</b>					50	50	50
<b>6 year old</b>						50	50
<b>7 year old</b>							50
<b>Total</b>	50	100	150	250	300	350	400
<b>Federation Formed</b>							

### Annexure-4 Cumulative savings of the groups

	1st year	2nd year	3rd year	4th year	5th year	6th year	7th year
<b>1st year</b>	335400	670800	1006200	1341600	1677000	2012400	2347800
<b>2nd year</b>		335400	670800	1006200	1341600	1677000	2012400
<b>3rd year</b>			335400	670800	1006200	1341600	1677000
<b>4th year</b>				670800	1341600	2012400	2683200
<b>5th year</b>					335400	670800	1006200
<b>6th year</b>						335400	670800
<b>7th year</b>							335400
<b>Total</b>	335400	1006200	2012400	3689400	5701800	8049600	10732800

**Annexure-5 Cash Flows of the federation when the interest earning is 4% and repayment rate is 85%, 90%, 95%, 95% and 95% respectively**

Cash Flows for SHG Federation															
	Year 1			Year 2			Year 3			Year 4			Year 5		
	Unit cost/Pm	Unit Cost		Unit cost	Unit Cost		Unit cost	Unit Cost		Unit cost	Unit Cost		Unit cost	Unit Cost	
<b>Recurring expenses</b>															
<b>Block coordinator</b>	10000	1	120000	11000	1	132000	12100	1	145200	13310	1	159720	14641	1	175692
<b>Cost of GWs</b>	1500	8	144000	1650	13	257400	1815	15	326700	1997	18	431244	2196	20	527076
<b>Cost of Supervisor</b>	4000	2	80000	4400	2	105600	4840	2	116160	5324	3	191664	5856	3	210830.4
<b>Cost of Data operator</b>	3000	1	48000	3300	1	39600	3630	1	43560	3993	1	47916	4392	1	52707.6
<b>Fede. Overheads</b>	6000	1	72000	6600	1	105600	7260	1	87120	7986	1	95832	8785	1	105415.2
<b>Total</b>			<b>464000</b>			<b>640200</b>			<b>718740</b>			<b>926376</b>			<b>1071721</b>
<b>Revenues</b>	<b>Contrib./ Payment member rate Unit Amt.</b>			<b>Unit Payment rate rate Unit Amt.</b>			<b>Unit Payment rate rate Unit Amt.</b>			<b>Unit Payment rate rate Unit Amt.</b>			<b>Unit Payment rate rate Unit Amt.</b>		
<b>Service fees</b>	75	0.85	100 82875	75	0.9	150 131625	75	0.95	150 138937.5	75	0.95	100 92625	75	0.95	100 92625
	100	0.85	50 55250	100	0.9	100 117000	100	0.95	150 185250	100	0.95	250 308750	100	0.95	300 370500
<b>Total service fees</b>			150 138125			250 248625			300 324187.5			350 401375			400 463125
<b>Interest</b>			171054			398455			627198			764712			764041
<b>Total loan</b>			5031000			11068200			18447000			20124000			22471800
<b>Total</b>			309179			647080			951386			1166087			1227166
<b>Income</b>			<b>-154821</b>			<b>6880</b>			<b>232646</b>			<b>239711</b>			<b>155445</b>
<b>Breakeven</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Surplus</b>			<b>Surplus</b>			<b>Surplus</b>

**Annexure-6 Cash Flows of the federation when the interest earning is 4% and repayment rate is 90%, 95%, 98%, 98% and 98% respectively**

Cash Flows for SHG Federation																				
	Year 1				Year 2				Year 3				Year 4				Year 5			
Recurring expenses	Unit cost/Pm	Unit Cost			Unit cost	Unit Cost			Unit cost	Unit Cost			Unit cost	Unit Cost			Unit cost	Unit Cost		
Block coordinator	10000	1	120000	11000	1	132000	12100	1	145200	13310	1	159720	14641	1	175692					
Cost of GWs	1500	8	144000	1650	13	257400	1815	15	326700	1997	18	431244	2196	20	527076					
Cost of Supervisor	4000	2	80000	4400	2	105600	4840	2	116160	5324	3	191664	5856	3	210830.4					
Cost of Data operator	3000	1	48000	3300	1	39600	3630	1	43560	3993	1	47916	4392	1	52707.6					
Fede. Overheads	6000	1	72000	6600	1	105600	7260	1	87120	7986	1	95832	8785	1	105415.2					
<b>Total</b>			<b>464000</b>			<b>640200</b>			<b>718740</b>			<b>926376</b>			<b>1071721</b>					
Revenues	Cont./ member rate	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.					
Service fees	75	0.9	100	87750	75	0.95	150	138937.5	75	0.98	150	143325	75	0.98	100	95550				
	100	0.9	50	58500	100	0.95	100	123500	100	0.98	150	191100	100	0.98	250	318500				
<b>Total service fees</b>			150	146250			250	262437.5			300	334425			350	414050				
Interest				181116				420592				723122				788861				
<b>Total loan</b>				5031000				11068200				18447000				20124000				
<b>Total</b>				327366				683029				1057547				1202911				
<b>Income</b>				<b>-136634</b>				<b>42829</b>				<b>338807</b>				<b>276535</b>				
<b>Breakeven</b>				<b>Deficit</b>				<b>Surplus</b>				<b>Surplus</b>				<b>Surplus</b>				

**Annexure-7 Cash Flows of the federation when the interest earning is 3% and repayment rate is 85%, 90%, 95%, 95% and 95% respectively**

Cash Flows for SHG Federation															
	Year 1			Year 2			Year 3			Year 4			Year 5		
Recurring expenses	Unit cost/Pm	Unit Cost		Unit cost	Unit Cost		Unit cost	Unit Cost		Unit cost	Unit Cost		Unit cost	Unit Cost	
Block coordinator	10000	1	120000	11000	1	132000	12100	1	145200	13310	1	159720	14641	1	175692
Cost of GWs	1500	8	144000	1650	13	257400	1815	15	326700	1997	18	431244	2196	20	527076
Cost of Supervisor	4000	2	80000	4400	2	105600	4840	2	116160	5324	3	191664	5856	3	210830.4
Cost of Data operator	3000	1	48000	3300	1	39600	3630	1	43560	3993	1	47916	4392	1	52707.6
Fede. Overheads	6000	1	72000	6600	1	105600	7260	1	87120	7986	1	95832	8785	1	105415.2
<b>Total</b>			<b>464000</b>			<b>640200</b>			<b>718740</b>			<b>926376</b>			<b>1071721</b>
Revenues	Contrib./member	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.	Unit rate	Payment rate	Unit Amt.
Service fees	75	0.85	100 82875	75	0.9	150 131625	75	0.95	150 138937.5	75	0.95	100 92625	75	0.95	100 92625
	100	0.85	50 55250	100	0.9	100 117000	100	0.95	150 185250	100	0.95	250 308750	100	0.95	300 370500
<b>Total service fees</b>			150 138125			250 248625			300 324187.5			350 401375			400 463125
Interest			128291			282239			470399			513162			573031
<b>Total loan</b>			5031000			11068200			18447000			20124000			22471800
<b>Total</b>			266416			530864			794586			914537			1036156
<b>Income</b>			<b>-197585</b>			<b>-109336</b>			<b>75846</b>			<b>-11839</b>			<b>-35565</b>
<b>Breakeven</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Surplus</b>			<b>Deficit</b>			<b>Deficit</b>

**Annexure-8 Cash Flows of the federation when the interest earning is 3% and repayment rate is 90%, 95%, 98%, 98% and 98% respectively**

<b>Cash Flows for SHG Federation</b>															
	<b>Year 1</b>			<b>Year 2</b>			<b>Year 3</b>			<b>Year 4</b>			<b>Year 5</b>		
<b>Recurring expenses</b>	<b>Unit cost/Pm</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>	
<b>Block coordinator</b>	10000	1	120000	11000	1	132000	12100	1	145200	13310	1	159720	14641	1	175692
<b>Cost of GWs</b>	1500	8	144000	1650	13	257400	1815	15	326700	1997	18	431244	2196	20	527076
<b>Cost of Supervisor</b>	4000	2	80000	4400	2	105600	4840	2	116160	5324	3	191664	5856	3	210830.4
<b>Cost of Data operator</b>	3000	1	48000	3300	1	39600	3630	1	43560	3993	1	47916	4392	1	52707.6
<b>Fede. Overheads</b>	6000	1	72000	6600	1	105600	7260	1	87120	7986	1	95832	8785	1	105415.2
<b>Total</b>			<b>464000</b>			<b>640200</b>			<b>718740</b>			<b>926376</b>			<b>1071721</b>
<b>Revenues</b>	<b>Cont./ member</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>
<b>Service fees</b>	75	0.9	100 87750	75	0.95	150 138937.5	75	0.98	150 143325	75	0.98	100 95550	75	0.98	100 95550
	100	0.9	50 58500	100	0.95	100 123500	100	0.98	150 191100	100	0.98	250 318500	100	0.98	300 382200
<b>Total service fees</b>			150 146250			250 262437.5			300 334425			350 414050			400 477750
<b>Interest</b>			135837			298841			498069			543348			606739
<b>Total loan</b>			5031000			11068200			18447000			20124000			22471800
<b>Total</b>			282087			561279			832494			957398			1084489
<b>Income</b>			<b>-181913</b>			<b>-78921</b>			<b>113754</b>			<b>31022</b>			<b>12767</b>
<b>Breakeven</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Surplus</b>			<b>Surplus</b>			<b>Surplus</b>

**Annexure-9 Cash Flows of the federation when the interest earning is 2% and repayment rate is 85%, 90%, 95%, 95% and 95% respectively**

<b>Cash Flows for SHG Federation</b>															
	<b>Year 1</b>			<b>Year 2</b>			<b>Year 3</b>			<b>Year 4</b>			<b>Year 5</b>		
<b>Recurring expenses</b>	<b>Unit cost/Pm</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>		<b>Unit cost</b>	<b>Unit Cost</b>	
<b>Block coordinator</b>	10000	1	120000	11000	1	132000	12100	1	145200	13310	1	159720	14641	1	175692
<b>Cost of GWs</b>	1500	8	144000	1650	13	257400	1815	15	326700	1997	18	431244	2196	20	527076
<b>Cost of Supervisor</b>	4000	2	80000	4400	2	105600	4840	2	116160	5324	3	191664	5856	3	210830.4
<b>Cost of Data operator</b>	3000	1	48000	3300	1	39600	3630	1	43560	3993	1	47916	4392	1	52707.6
<b>Fede. Overheads</b>	6000	1	72000	6600	1	105600	7260	1	87120	7986	1	95832	8785	1	105415.2
<b>Total</b>			<b>464000</b>			<b>640200</b>			<b>718740</b>			<b>926376</b>			<b>1071721</b>
<b>Revenues</b>	<b>Contrib./ Payment member rate</b>	<b>Unit Amt.</b>		<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>		<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>		<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	
<b>Service fees</b>	75	0.85	100 82875	75	0.9	150 131625	75	0.95	150 138937.5	75	0.95	100 92625	75	0.95	100 92625
	100	0.85	50 55250	100	0.9	100 117000	100	0.95	150 185250	100	0.95	250 308750	100	0.95	300 370500
<b>Total service fees</b>			150 138125			250 248625			300 324187.5			350 401375			400 463125
<b>Interest</b>			85527			188159			313599			342108			382021
<b>Total loan</b>			5031000			11068200			18447000			20124000			22471800
<b>Total</b>			223652			436784			637787			743483			845146
<b>Income</b>			<b>-240348</b>			<b>-203416</b>			<b>-80954</b>			<b>-182893</b>			<b>-226576</b>
<b>Breakeven</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Deficit</b>

**Annexure-10 Cash Flows of the federation when the interest earning is 2% and repayment rate is 90%, 95%, 98%, 98% and 98% respectively**

<b>Cash Flows for SHG Federation</b>																
	<b>Year 1</b>			<b>Year 2</b>			<b>Year 3</b>			<b>Year 4</b>			<b>Year 5</b>			
<b>Recurring expenses</b>	<b>Cost/PM</b>	<b>Unit Cost</b>		<b>Cost/PM</b>	<b>Unit Cost</b>		<b>Cost/PM</b>	<b>Unit Cost</b>		<b>Cost/PM</b>	<b>Unit Cost</b>		<b>Cost/PM</b>	<b>Unit Cost</b>		
<b>Block coordinator</b>	10000	1	120000	11000	1	132000	12100	1	145200	13310	1	159720	14641	1	175692	
<b>Cost of GWs</b>	1500	8	144000	1650	13	257400	1815	15	326700	1997	18	431244	2196	20	527076	
<b>Cost of Supervisor</b>	4000	2	80000	4400	2	105600	4840	2	116160	5324	3	191664	5856	3	210830.4	
<b>Cost of Data operator</b>	3000	1	48000	3300	1	39600	3630	1	43560	3993	1	47916	4392	1	52707.6	
<b>Fede. Overheads</b>	6000	1	72000	6600	1	105600	7260	1	87120	7986	1	95832	8785	1	105415.2	
<b>Total</b>			<b>464000</b>			<b>640200</b>			<b>718740</b>			<b>926376</b>			<b>1071721</b>	
<b>Revenues</b>	<b>Cont./ member</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	<b>Unit rate</b>	<b>Payment rate</b>	<b>Unit Amt.</b>	
<b>Service fees</b>	75	0.9	100 87750	75	0.95	150 138937.5	75	0.98	150 143325	75	0.98	100 95550	75	0.98	100 95550	
	100	0.9	50 58500	100	0.95	100 123500	100	0.98	150 191100	100	0.98	250 318500	100	0.98	300 382200	
<b>Total service fees</b>			150 146250			250 262437.5			300 334425			350 414050			400 477750	
<b>Interest</b>			90558			199228			332046			362232			404492	
<b>Total loan</b>			5031000			11068200			18447000			20124000			22471800	
<b>Total</b>			236808			461665			666471			776282			882242	
<b>Income</b>			<b>-227192</b>			<b>-178535</b>			<b>-52269</b>			<b>-150094</b>			<b>-189479</b>	
<b>Breakeven</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Deficit</b>			<b>Deficit</b>	

**Annexure-11 Annual Cumulative savings and credit disbursement by MFI (Optimistic Scenario)**

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>No. of SHGs<sup>41</sup></b>	<b>700</b>	<b>1150</b>	<b>1600</b>	<b>2400</b>	<b>3000</b>
<b>Savings<sup>42</sup></b>	<b>4715577</b>	<b>12594822</b>	<b>23768441</b>	<b>40699536</b>	<b>62248020.18</b>
<b>Credit disbursement</b>	<b>9431154</b>	<b>18086354</b>	<b>42177419</b>	<b>66902426</b>	<b>101913899.6</b>
	9431154	14146731 3939623	18862308 5909434 11818868 5586809	18862308 7879245 17728302 8380214 5586809 8465548	18862308 7879245.2 23637735.6 11173618.8 4190107.04 12698321.6 12698321.6 10774241.9
<b>Credit disbursement</b>	<b>9431154</b>	<b>18086354</b>	<b>42177419</b>	<b>66902426</b>	<b>101913900</b>

**Annexure-12 Staff and salary structure of MFI**

Staff Structure		Year 1		Year 2		Year 3		Year 4		Year 5
Manager	1	13000	1	14300	1	15730	1	17303	1	19033
Loan Appraiser	1	6000	2	13200	2	14520	2	15972	2	17569
Accountant	1	6000	1	6600	1	7260	1	7986	1	8785
Support staff	1	3000	1	3300	2	7260	2	7986	2	8785
MIS staff	1	5000	1	5500	2	12100	2	13310	2	14641
<b>Total Salary</b>	<b>5</b>	<b>33000</b>	<b>6</b>	<b>42900</b>	<b>8</b>	<b>56870</b>	<b>8</b>	<b>62557</b>	<b>8</b>	<b>68813</b>
Travel		8000		10000		15000		16500		18150
Overheads		14000		15400		16940		18634		20497
<b>Total</b>		<b>55000</b>		<b>68300</b>		<b>88810</b>		<b>97691</b>		<b>107460</b>

**Annexure-13 Capital exp. of MFI initially**

Capital Expenses		
Lighting & furnishing	20000	1 30000
Furniture	40000	1 70000
Computer	20000	2 100000
Miscl. (Software etc.)		100000
<b>Total</b>		<b>300000</b>

<sup>41</sup> Number of SHGs would increase 450 groups for first two years and thereafter it would increase 800 and 600 groups respectively.

<sup>42</sup> Saving per month has been taken Rs.43 per month.

### Annexure-14 Office overhead of MFI

Overheads			
Rent	4000	12	48000
Electricity	2000	12	24000
Telephone	3000	12	36000
Stationary	2000	12	24000
Miscl.	3000	12	36000
<b>Total</b>	<b>14000</b>		<b>168000</b>

### Annexure-15 Cash Flows of MFI at 8% interest earning and 90% repayment rate (Optimistic Scenario)

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115		1808635		4217742		6690243		10191390
<b>Total</b>		<b>2003115</b>		<b>2728235</b>		<b>5383462</b>		<b>7962535</b>		<b>11580911</b>
Revenue										
Interest		679043		1302217		3036774		4816975	0	7337801
Income		-1324072		-1426018		-2346688		-3145560		-4243110
Less Reserve (5%)		0		0		0		0		0
<b>Net Revenue</b>										
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-16 Cash Flows of MFI at 8% interest earning and 95% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471558		904317.7		2108871		3345121		5095695
<b>Total</b>		<b>1531558</b>		<b>1823918</b>		<b>3274591</b>		<b>4617413</b>		<b>6485216</b>
Revenue										
Interest		716768		1374563		3205484		5084584		7745456
<b>Income</b>		<b>-814790</b>		<b>-449355</b>		<b>-69107</b>		<b>467171</b>		<b>1260240</b>
Less Reserve (5%)								23359		63012
<b>Net Revenue</b>		<b>-814790</b>		<b>-449355</b>		<b>-69107</b>		<b>443813</b>		<b>1197228</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>
									<b>Breakeven</b>	

**Annexure-17 Cash Flows of MFI at 8% interest earning and 97.5% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235779		452158.8		1054435		1672561		2547847
<b>Total</b>		<b>1295779</b>		<b>1371759</b>		<b>2220155</b>		<b>2944853</b>		<b>3937369</b>
Revenue										
Interest		735630		1410736		3289839		5218389		7949284
<b>Income</b>		<b>-560149</b>		<b>38977</b>		<b>1069683</b>		<b>2273537</b>		<b>4011915</b>
Less Reserve (5%)				1949		53484		113677		200596
<b>Net Revenue</b>		<b>-560149</b>		<b>37028</b>		<b>1016199</b>		<b>2159860</b>		<b>3811320</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
						<b>Breakeven</b>				

**Annexure-18 Cash Flows of MFI at 9% interest earning and 90% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115		1808635		4217742		6690243		10191390
<b>Total</b>		<b>2003115</b>		<b>2728235</b>		<b>5383462</b>		<b>7962535</b>		<b>11580911</b>
Revenue										
Interest		763923		1464995		3416371		5419097		8255026
Income		-		-		-		-		-
		<b>1239192</b>		<b>1263241</b>		<b>1967091</b>		<b>2543438</b>		<b>-3325885</b>
Less Reserve (5%)										
Net Revenue		-		-		-		-		-
		1239192		1263241		1967091		2543438		-3325885
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-19 Cash Flows of MFI at 9% interest earning and 95% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471558		904317.7		2108871		3345121		5095695
<b>Total</b>		<b>1531558</b>		<b>1823918</b>		<b>3274591</b>		<b>4617413</b>		<b>6485216</b>
Revenue										
Interest		806364		1546383		3606169		5720157		8713638
Income		-725194		-277534		331578		1102744		2228422
Less Reserve (5%)						16579		55137		111421
Net Revenue		-725194		-277534		314999		1047607		2117001
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
								<b>Breakeven</b>		

**Annexure-20 Cash Flows of MFI at 9% interest earning and 97.5% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
Total		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235779		452158.8		1054435		1672561		2547847
Total		<b>1295779</b>		<b>1371759</b>		<b>2220155</b>		<b>2944853</b>		<b>3937369</b>
Revenue										
Interest		827584		1587078		3701069		5870688		8942945
Income		<b>-468195</b>		<b>215319</b>		<b>1480913</b>		<b>2925835</b>		<b>5005576</b>
Less Reserve (5%)				10766		74046		146292		250279
Net Revenue		-468195		204553		1406867		2779543		4755297
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
						<b>Breakeven</b>				

**Annexure-21 Cash Flows of MFI at 10% interest earning and 90% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
Total		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115		1808635		4217742		6690243		10191390
Total		<b>2003115</b>		<b>2728235</b>		<b>5383462</b>		<b>7962535</b>		<b>11580911</b>
Revenue										
Interest		848804		1627772		3795968		6021218		9172251
Income		<b>-1154312</b>		<b>-1100464</b>		<b>-1587494</b>		<b>-1941316</b>		<b>-2408660</b>
Less Reserve (5%)		0		0		0		0		0
Net Revenue		-1154312		-1100464		-1587494		-1941316		-2408660
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-22 Cash Flows of MFI at 10% interest earning and 95% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
Total		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471558		904317.7		2108871		3345121		5095695
<b>Total</b>		<b>1531558</b>		<b>1823918</b>		<b>3274591</b>		<b>4617413</b>		<b>6485216</b>
Revenue										
Interest		895960		1718204		4006855		6355730		9681820
<b>Income</b>		<b>-635598</b>		<b>-105714</b>		<b>732264</b>		<b>1738317</b>		<b>3196604</b>
Less Reserve (5%)						36613		86916		159830
<b>Net Revenue</b>		<b>-635598</b>		<b>-105714</b>		<b>695651</b>		<b>1651401</b>		<b>3036774</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
								<b>Breakeven</b>		

**Annexure-23 Cash Flows of MFI at 10% interest earning and 97.5% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
Total		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235779		452158.8		1054435		1672561		2547847
<b>Total</b>		<b>1295779</b>		<b>1371759</b>		<b>2220155</b>		<b>2944853</b>		<b>3937369</b>
Revenue										
Interest		919538		1763419		4112298		6522987		9936605
<b>Income</b>		<b>-376241</b>		<b>391661</b>		<b>1892143</b>		<b>3578134</b>		<b>5999237</b>
Less Reserve (5%)				19583		94607		178907		299962
<b>Net Revenue</b>		<b>-376241</b>		<b>372078</b>		<b>1797536</b>		<b>3399227</b>		<b>5699275</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
								<b>Breakeven</b>		

**Annexure-24 Cash Flows of MFI at 11% interest earning and 90% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115		1808635		4217742		6690243		10191390
<b>Total</b>		<b>2003115</b>		<b>2728235</b>		<b>5383462</b>		<b>7962535</b>		<b>11580911</b>
Revenue										
Interest		933684		1790549		4175564		6623340		10089476
Income		-		-937686		-		-		-1491435
Less Reserve (5%)		<b>1069431</b>				<b>1207897</b>		<b>1339194</b>		
Net Revenue		-		-937686		-		-		-1491435
		1069431		-937686		1207897		1339194		-1491435
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-25 Cash Flows of MFI at 11% interest earning and 95% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471558	0	904317.7	0	2108871	0	3345121	0	5095695
<b>Total</b>		<b>1531558</b>		<b>1823918</b>		<b>3274591</b>		<b>4617413</b>		<b>6485216</b>
Revenue										
Interest		985556	0	1890024	0	4407540	0	6991304	0	10650003
Income		-546002		66106		1132949		2373890		4164786
Less Reserve (5%)				3305		56647		118695		208239
Net Revenue		-546002		62801		1076302		2255196		3956547
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
						<b>Breakeven</b>				

**Annexure-26 Cash Flows of MFI at 11% interest earning and 97.5% repayment rate  
(Optimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235779	0	452158.8	0	1054435	0	1672561	0	2547847
<b>Total</b>		<b>1295779</b>		<b>1371759</b>		<b>2220155</b>		<b>2944853</b>		<b>3937369</b>
Revenue										
Interest		1011491	0	1939761	0	4523528	0	7175285	0	10930266
<b>Income</b>		<b>-284288</b>		<b>568003</b>		<b>2303373</b>		<b>4230433</b>		<b>6992897</b>
Less Reserve (5%)				28400		115169		211522		349645
<b>Net Revenue</b>		<b>-284288</b>		<b>539602</b>		<b>2188204</b>		<b>4018911</b>		<b>6643252</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
				<b>Breakeven</b>						

**Annexure-27 Annual Cumulative savings and credit disbursement by MFI (Pessimistic Scenario)**

	Year 1	Year 2	Year 3	Year 4	Year 5
No. of SHGs <sup>43</sup>	700	1000	1600	2000	2400
Savings	4715577	11588622	22727024	36938470	54330516.25
Credit disbursement	9431154	17583254	39895861	62228430	91682983.2
	9431154	14146731	18862308	18862308	18862308
		3436523	5154784	6873045	6873045.2
			10309568	15464352	20619135.6
			5569201	8353801	11138401.8
				5569201	4176900.67
				7105723	10658584.4
					10658584.4
					8696023.22
<b>Credit disbursement</b>	<b>9431154</b>	<b>17583254</b>	<b>39895861</b>	<b>62228430</b>	<b>91682983.2</b>

<sup>43</sup> Number of SHGs would increase 300 groups for first year and thereafter it would increase 600, 400, and 400 groups respectively.

**Annexure-28 Cash Flows of MFI at 8% interest earning and 90% repayment rate  
(Pessimistic Scenario)**

<b>Breakeven Analysis for MFI</b>										
	<b>Year 1</b>		<b>Year 2</b>		<b>Year 3</b>		<b>Year 4</b>		<b>Year 5</b>	
<b>Annual Exp.</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115.4		1758325		3989586		6222843		9168298
<b>Total</b>		<b>2003115</b>		<b>2677925</b>		<b>5155306</b>		<b>7495135</b>		<b>10557820</b>
Revenue										
Interest		679043.1		1265994		2872502		4480447	0	6601175
<b>Income</b>		<b>-1324072</b>		<b>-1411931</b>		<b>-2282804</b>		<b>-3014688</b>		<b>-3956645</b>
Less Reserve (5%)		0		0		0		0		0
<b>Net Revenue</b>										
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-29 Cash Flows of MFI at 8% interest earning and 95% repayment rate  
(Pessimistic Scenario)**

<b>Breakeven Analysis for MFI</b>										
	<b>Year 1</b>		<b>Year 2</b>		<b>Year 3</b>		<b>Year 4</b>		<b>Year 5</b>	
<b>Annual Exp.</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>	<b>Unit cost/Pm</b>	<b>Cost</b>
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471557.7		879162.7		1994793		3111422		4584149
<b>Total</b>		<b>1531558</b>		<b>1798763</b>		<b>3160513</b>		<b>4383714</b>		<b>5973670</b>
Revenue										
Interest		716767.7		1336327		3032085		4729361		6967907
<b>Income</b>		<b>-814790</b>		<b>-462435</b>		<b>-128428</b>		<b>345647</b>		<b>994236</b>
Less Reserve (5%)								17282		49712
<b>Net Revenue</b>		<b>-814790</b>		<b>-462435</b>		<b>-128428</b>		<b>328365</b>		<b>944525</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>

**Annexure-30 Cash Flows of MFI at 8% interest earning and 97.5% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235778		439581		997396		1555711		2292075
<b>Total</b>		<b>1295779</b>		<b>1359181</b>		<b>2163117</b>		<b>2828003</b>		<b>3681596</b>
Revenue										
Interest		735630		1371494		3111877		4853818		7151273
<b>Income</b>		<b>-560149</b>		<b>12312</b>		<b>948761</b>		<b>2025815</b>		<b>3469677</b>
Less Reserve (5%)				616		47438		101291		173484
<b>Net Revenue</b>		<b>-560149</b>		<b>11697</b>		<b>901323</b>		<b>1924524</b>		<b>3296193</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
						<b>Breakeven</b>				

**Annexure-31 Cash Flows of MFI at 9% interest earning and 90% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115		1758325		3989586		6222843		9168298
<b>Total</b>		<b>2003115</b>		<b>2677925</b>		<b>5155306</b>		<b>7495135</b>		<b>10557820</b>
Revenue										
Interest		763923.5		1424244		3231565		5040503		7426322
<b>Income</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-3131498</b>
Less Reserve (5%)		1239192		1253682		1923741		2454632		
Net Revenue		-		-		-		-		-
<b>Net Revenue</b>		<b>1239192</b>		<b>1253682</b>		<b>1923741</b>		<b>2454632</b>		<b>-3131498</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-32 Cash Flows of MFI at 9% interest earning and 95% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471557.7		879162.7		1994793		3111422		4584149
<b>Total</b>		<b>1531558</b>		<b>1798763</b>		<b>3160513</b>		<b>4383714</b>		<b>5973670</b>
Revenue										
Interest		806363.7		1503368		3411096		5320531		7838895
<b>Income</b>		<b>-725194</b>		<b>-295394</b>		<b>250583</b>		<b>936817</b>		<b>1865225</b>
Less Reserve (5%)						12529		46841		93261
<b>Net Revenue</b>		<b>-725194</b>		<b>-295394</b>		<b>238054</b>		<b>889976</b>		<b>1771963</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
								<b>Breakeven</b>		

**Annexure-33 Cash Flows of MFI at 9% interest earning and 97.5% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235778		439581.3		997396.5		1555711		2292075
<b>Total</b>		<b>1295779</b>		<b>1359181</b>		<b>2163117</b>		<b>2828003</b>		<b>3681596</b>
Revenue										
Interest		827583		1542931		3500862		5460545		8045182
<b>Income</b>		<b>-468195</b>		<b>183749</b>		<b>1337745</b>		<b>2632542</b>		<b>4363586</b>
Less Reserve (5%)				9187		66887		131627		218179
<b>Net Revenue</b>		<b>-468195</b>		<b>174562</b>		<b>1270858</b>		<b>2500915</b>		<b>4145407</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
								<b>Breakeven</b>		

**Annexure-34 Cash Flows of MFI at 10% interest earning and 90% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>760000</b>		<b>869600</b>		<b>1115720</b>		<b>1222292</b>		<b>1339521</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471557.7		1158862		2272702		3693847		5433052
<b>Total</b>		<b>1531558</b>		<b>2078462</b>		<b>3438422</b>		<b>4966139</b>		<b>6822573</b>
Revenue										
Interest		424401.9		1042976		2045432		3324462		4889746
<b>Income</b>		<b>-1107156</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-1932826</b>
Less Reserve (5%)		0		0		0		0		0
<b>Net Revenue</b>		<b>-1107156</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-1932826</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-35 Cash Flows of MFI at 10% interest earning and 95% repayment rate  
(Pessimistic Scenario)**

Cash Flows for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	46000	552000	62700	752400	68970	827640	75867	910404	83453.7	1001444
Travel	16000	192000	17600	211200	19360	232320	21296	255552	23425.6	281107.2
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497.4	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>1012000</b>		<b>1198400</b>		<b>1313240</b>		<b>1439564</b>		<b>1578520</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471557.7		879163		1994793		3111422		4584149
<b>Total</b>		<b>1783558</b>		<b>2127563</b>		<b>3358033</b>		<b>4600986</b>		<b>6212670</b>
Revenue										
Interest		895959.6		1670409		3790107		5911701		8709883
<b>Income</b>		<b>-887598</b>		<b>-457154</b>		<b>432074</b>		<b>1310715</b>		<b>2497214</b>
Less Reserve (5%)						21604		65536		124861
<b>Net Revenue</b>		<b>-887598</b>		<b>-457154</b>		<b>410470</b>		<b>1245180</b>		<b>2372353</b>
<b>No. of SHGs</b>	<b>700</b>		<b>1000</b>		<b>1600</b>		<b>2000</b>		<b>2400</b>	
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>

**Annexure-36 Cash Flows of MFI at 10% interest earning and 97.5% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235778		439581.3		997396.5		1555711		2292075
<b>Total</b>		<b>1295779</b>		<b>1359181</b>		<b>2163117</b>		<b>2828003</b>		<b>3681596</b>
Revenue										
Interest		919537		1714367		3889846		6067272		8939091
<b>Income</b>		<b>-376241</b>		<b>355186</b>		<b>1726730</b>		<b>3239269</b>		<b>5257495</b>
Less Reserve (5%)				17759		86336		161963		262875
<b>Net Revenue</b>		<b>-376241</b>		<b>337427</b>		<b>1640393</b>		<b>3077306</b>		<b>4994620</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
						<b>Breakeven</b>				

**Annexure-37 Cash Flows of MFI at 11% interest earning and 90% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115.4		1758325		3989586		6222843		9168298
<b>Total</b>		<b>2003115</b>		<b>2677925</b>		<b>5155306</b>		<b>7495135</b>		<b>10557820</b>
Revenue										
Interest		933684.2	0	1740742	0	3949690	0	6160615	0	9076615
<b>Income</b>		<b>-</b>		<b>-937183</b>		<b>-</b>		<b>-</b>		<b>-1481204</b>
Less Reserve (5%)										
<b>Net Revenue</b>		<b>-</b>		<b>-937183</b>		<b>-</b>		<b>-</b>		<b>-1481204</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-38 Cash Flows of MFI at 11% interest earning and 95% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471557	0	879162.7	0	1994793	0	3111422	0	4584149
<b>Total</b>		<b>1531558</b>		<b>1798763</b>		<b>3160513</b>		<b>4383714</b>		<b>5973670</b>
Revenue										
Interest		985555	0	1837450	0	4169117	0	6502871	0	9580872
<b>Income</b>		<b>-546002</b>		<b>38687</b>		<b>1008604</b>		<b>2119157</b>		<b>3607201</b>
Less Reserve (5%)				1934		50430		105958		180360
<b>Net Revenue</b>		<b>-546002</b>		<b>36753</b>		<b>958174</b>		<b>2013200</b>		<b>3426841</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
						<b>Breakeven</b>				

**Annexure-39 Cash Flows of MFI at 11% interest earning and 97.5% repayment rate  
(Pessimistic Scenario)**

Breakeven Analysis for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost	Unit cost/Pm	Cost
Staff Salary	33000	396000	42900	514800	56870	682440	62557	750684	68813	825752.4
Travel	8000	96000	10000	120000	15000	180000	16500	198000	18150	217800
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245968.8
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		760000		869600		1115720		1222292		1339521
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235778	0	439581.3	0	997396.5	0	1555711	0	2292075
<b>Total</b>		<b>1295779</b>		<b>1359181</b>		<b>2163117</b>		<b>2828003</b>		<b>3681596</b>
Revenue										
Interest		1011491	0	1885804	0	4278831	0	6673999	0	9833000
<b>Income</b>		<b>-284288</b>		<b>526623</b>		<b>2115715</b>		<b>3845996</b>		<b>6151404</b>
Less Reserve (5%)				26331		105786		192300		307570
<b>Net Revenue</b>		<b>-284288</b>		<b>500291</b>		<b>2009929</b>		<b>3653697</b>		<b>5843834</b>
<b>Breakeven</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>
				<b>Breakeven</b>						

**Annexure-40 Break-up of federation overheads if federation and MFI are merged**

Break up of Federation Overheads															
	Year 1			Year 2			Year 3			Year 4			Year 5		
Recurring expenses	Unit cost/Pm	Unit Cost	Unit cost	Unit Cost	Unit cost	Unit Cost	Unit cost	Unit Cost	Unit cost	Unit Cost	Unit cost	Unit Cost			
Block coordinator	10000	1	120000	11000	1	132000	12100	1	145200	13310	1	159720	14641	1	175692
Cost of GWs	1500	8	144000	1650	13	257400	1815	15	326700	1997	18	431244	2196	20	527076
Cost of Supervisor	4000	2	80000	4400	2	105600	4840	2	116160	4400	3	158400	4840	3	174240
Cost of Data operator	3000	1	36000	3300	1	39600	3630	1	43560	3993	1	47916	4392	1	52708
Fede. Overheads	4000	1	48000	4400	1	52800	4840	1	58080	5324	1	63888	5856	1	70277
<b>Total</b>			<b>428000</b>			<b>587400</b>			<b>689700</b>			<b>861168</b>			<b>999992</b>

**Annexure-41 Cash Flows of MFI at 13% interest rate and 90% repayment rate if federation and MFI are merged**

Cash Flows for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost
Staff Salary	46000	552000	62700	752400	68970	827640	75867	910404	83454	1001444
Travel	16000	192000	17600	211200	19360	232320	21296	255552	23426	281107
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245969
Federation Overhead		1997333		2702040		3678400		5905152		7499943
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		<b>3009333</b>		<b>3900440</b>		<b>4991640</b>		<b>7344716</b>		<b>9078463</b>
Capital expenses		300000		50000		50000		50000		50000
Bad debts		943115		1808635		4217742		6690243		10191390
<b>Total</b>		<b>4252449</b>		<b>5759075</b>		<b>9259382</b>		<b>14084959</b>		<b>19319853</b>
<b>Revenue</b>										
Service Charges		682500		1207213		1783600		2839200		3583125
Interest		1103445		2116103		4934758		7827584		11923926
Income		-2466504		-2435759		-2541024		-3418175		-3812802
Less Reserve (5%)		0		0		0		0		0
<b>Net Revenue</b>		<b>-2466504</b>		<b>-2435759</b>		<b>-2541024</b>		<b>-3418175</b>		<b>-3812802</b>
Number of SHGs	<b>700</b>		<b>1150</b>		<b>1600</b>		<b>2400</b>		<b>3000</b>	
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>

**Annexure-42 Cash Flows of MFI at 13% interest rate and 95% repayment rate if federation and MFI are merged**

Cash Flows for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost
Staff Salary	46000	552000	62700	752400	68970	827640	75867	910404	83454	1001444
Travel	16000	192000	17600	211200	19360	232320	21296	255552	23426	281107
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245969
Federation Overhead		1997333		2702040		3678400		5905152		7499943
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		3009333		3900440		4991640		7344716		9078463
Capital expenses		300000		50000		50000		50000		50000
Bad debts		471558		904318		2108871		3345121		5095695
<b>Total</b>		3780891		4854758		7150511		10739837		14224158
<b>Revenue</b>										
Service Charges		682500		1207213		1783600		2839200		3583125
Interest		1164748		2233665		5208911		8262450		12586367
Income		-1933644		-1413881		-158000		361812		1945333
Less Reserve (5%)		0		0		0		18091		97267
<b>Net Revenue</b>		<b>-1933644</b>		<b>-1413881</b>		<b>-158000</b>		<b>343722</b>		<b>1848067</b>
Number of SHGs	<b>700</b>		<b>1150</b>		<b>1600</b>		<b>2400</b>		<b>3000</b>	
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>

**Annexure-43 Cash Flows of MFI at 13% interest rate and 97.5% repayment rate if federation and MFI are merged**

Cash Flows for MFI										
	Year 1		Year 2		Year 3		Year 4		Year 5	
Annual Exp.	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost	Unit cost	Cost
Staff Salary	46000	552000	62700	752400	68970	827640	75867	910404	83454	1001444
Travel	16000	192000	17600	211200	19360	232320	21296	255552	23426	281107
Overheads	14000	168000	15400	184800	16940	203280	18634	223608	20497	245969
Federation Overhead		1997333		2702040		3678400		5905152		7499943
Staff Training		100000		50000		50000		50000		50000
<b>Total</b>		3009333		3900440		4991640		7344716		9078463
Capital expenses		300000		50000		50000		50000		50000
Bad debts		235779		452159		1054435		1672561		2547847
<b>Total</b>		3545112		4402599		6096075		9067277		11676311
<b>Revenue</b>										
Service Charges		682500		1207213		1783600		2839200		3583125
Interest		1195399		2292445		5345988		8479883		12917587
Income		-1667213		-902941		1033512		2251806		4824401
Less Reserve (5%)		0		0		51676		112590		241220
<b>Net Revenue</b>		<b>-1667213</b>		<b>-902941</b>		<b>981837</b>		<b>2139216</b>		<b>4583181</b>
Number of SHGs	<b>700</b>		<b>1150</b>		<b>1600</b>		<b>2400</b>		<b>3000</b>	
<b>Breakeven</b>		<b>Deficit</b>		<b>Deficit</b>		<b>Surplus</b>		<b>Surplus</b>		<b>Surplus</b>