

**Formulation of a cost-effective strategy for the  
Micro Finance programme**

BY

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At the end I hope that this project contributes in its own small way to ASA to strengthen its Micro Finance programme.

Raman Jain

## EXECUTIVE SUMMARY

I	Title	:	Formulation of a cost-effective strategy for the Micro Finance programme
II	Organisation	:	Action for Social Advancement (ASA)
III	Reporting Officer	:	Mr. Abhradeep Das
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The organization Action for Social Advancement was founded in 1995 with an objective of mobilizing and empowering community based organizations to undertake livelihood improvement, through intensive capacity building interventions and to develop low cost and replicable approaches to integrated Community Based Natural Resources Management. One of the various interventions undertaken is Microfinance. Although, initially it was a part of the watershed development activities it became a separate programme from January, 2003.

The model for Microfinance delivery that ASA has been following is that of SHG – Bank linkage, with the ASA as the facilitator. It is the most popular of the Microfinance models currently in India with 75% of the SHG's formed in the country falling under this category and the same is promoted by NABARD.

PHF is the funding agency for the programme till December, 2005 (3 years) and as per their conditions 1,000 SHG's have to be formed by the end of the funding period. As on December, 2004 ASA has formed 432 SHG's.

**Objectives :** The objectives of the study were :

- i. To review the Microfinance programme
- ii. To find out a cost-effective strategic plan to strengthen the existing SHG's and to improve the Microfinance programme.

To review the Mc Financier software package used in the MF programme.

**Methodology :** Apart from the regular discussions with the staff members, two one day workshops were held with the staff members to know the problems from their perspective and for data/information/analysis validity. Then a survey of 40 SHG's across four blocks (Ranapur, Meghnagar, Udaigarh and Jobat) of Jhabua district, two Banks (RRB and SBI) in Meghnagar, and ASA staff survey was conducted to know the problems from different perspectives. The visit to PEDO, Dungarpur and PRADAN, Kesla were very helpful and provided much insights.

**Major Findings :** The Microfinance programme of ASA is still in a learning phase and took up after it has become a separate initiative (January, 2003). The major problem is in the form of inability to form the SHG-Bank linkage within the promised time period and inadequacy of loans amount and timeliness of the loan sanctioning. This is due to a set of internal and external factors which need to be taken care of for strengthening the initiative. There were a lot of discrepancies in the data flow and reporting system and Mc Financier (software) was useless as no reports could be generated out of it and some vital information could not be stored there. However, given the ground realities and staff inexperience in MF, 432 SHGs is a sizeable number and there is potential to develop this programme into a successful model.

**Recommendations :** Some of the major recommendations were :

- i. Increase the time period promised for the SHG-Bank linkage.
- ii. Increase the minimum savings and the service charge (seva shulk) amounts .
- iii. Enter into an MoU with some Bank (SBI and ICICI have shown interest)
- iv. Replacement of Mc Financier or go for customized changes in the software.

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## LIST OF ABBREVIATIONS

NABARD	National Bank for Agricultural and Rural Development
DRDA	District Rural Development Agency
RRB	Regional Rural Bank
ASA	Action for Social Advancement
PHF	Paul Hamlyn Foundation
PEDO	Peoples' Education and Development Organisation
PRADAN	Professional Assistance for Development Action
RRB	Regional Rural Bank
SBI	State Bank of Indore
BoB	Bank of Baroda
CBNRM	Community Based Natural Resources Management
MF	Micro Finance
NRM	Natural Resources Management
FSR	Farming Systems Research and extension
SHG	Self Help Group
SCG	Savings and Credit Group
NGO	Non Governmental Organisation
MFI	Micro Finance Institution
MIS	Management Information System
HDI	Human Development Index
FD	Fixed Deposit
MoU	Memorandum of Understanding
MPR	Monthly Progress Report
GW	Group Worker
PS	Project Supervisor
BC	Block Coordinator
PC	Programme Coordinator
PL	Programme Leader

# CHAPTER - I : INTRODUCTION

In this chapter we briefly look at the general models used for delivery of Micro Finance/ Credit facilities in India and the model of ASA. Then it goes on to state the objectives of the present study and the methodology used to conduct the study.

## 1.1. Introduction

It is an age-old adage that “India is a rich country where poor people live”<sup>1</sup>. The Indian government has been toiling hard since 1947 to change this tag by bringing the masses above the poverty line through various developmental activities. Various institutions like the NABARD, DRDA, Planning Commission, Nationalized Banks etc have been created for the same purpose, however, it is still a fact that one of the most serious problems India is facing is to make accessible the institutional credit system to the rural poor. The present system is not being able to meet even 2%<sup>2</sup> of the rural credit demands and there still exists lengthy and tedious credit sanctioning and disbursements process.

In this light Micro Finance has emerged in a major way to link the rural poor to the formal sector or to provide easy access to credit at cheap prices through the informal sector. In addition Micro Finance has attracted various NGO’s across the country and is one of the most upcoming and successful initiatives for poverty alleviation.

## 1.2. General models of MF delivery in India

Of all the Micro finance delivery models in India one thing is common i.e., the promotion of Self Help Groups. It is becoming increasingly popular to lend through a group based system because it not only ensures a good repayment rate and proper utilization of funds but it also provides access to the credit system without any physical collateral. The poor who are not

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<sup>1</sup> Pethiya B.P. and Surayya Teki , “ Emerging Micro Finance Practices.” , Paradigm , Volume VIII, No. 1, January – June, 2004 , p 81 – 97

<sup>2</sup> [www.nabard.org](http://www.nabard.org)

able to provide any physical collateral basis, come together and can access the credit system through social collateral system.

There are various models for Micro finance/Micro credit delivery in India. Some of the most popular ones are :-

1. SHG – Bank – Federation/NGO
2. SHG – NGO – Bank
3. SHG – Federation – Bank
4. SHG – Cluster – Federation – Bank

The first model ie, direct SHG – Bank linkage with the NGO or the Federation acting as the facilitating agency is the success model of NABARD, which it has been promoting since the successful pilot test in 1997. Currently over 75% of the SHGs formed in India are of this model with some local adaptations and has met with great success. However, the effectiveness of such a model is debatable and under question.

In the second and the third models, the NGO or the Federation 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. In short the NGO or the Federation become a MFI and acts as an intermediary between the bank and the SHG. These models too have been successful but to a very limited extent. One of the major shortcomings of this models is that it puts too much responsibility upon the NGO or the Federation and till date no such organization has been able to economically or financially sustain itself<sup>3</sup>.

The fourth model is a very recent one and is yet to be proved in the field. However, it too suffers from the same problems as the previous two models and its outreach and sustainability is under question. Organizations like PEDO and DHAN follow the same model.

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<sup>3</sup> By financial sustenance we mean that the income of the NGO or the Federation exceeds the expenditure from the credit delivery operations. However, by economic sustenance we mean that the income of the NGO or the Federation exceeds that actual costs of the credit delivery operations even if there is no subsidy support for the programme.

### 1.3. A Brief of ASA model

ASA follows the SHG – Bank linkage model promoted by the NABARD, with ASA playing the role of the facilitator. This model has been promoted actively by NABARD and has met with a good success rate also. ASA has also promoted two Block level Federations<sup>4</sup> which provide support to the SHGs.

The strategy that ASA follows is that it forms SHGs of twelve to thirteen members<sup>5</sup> (with only one member per household and unisex groups) and starts inculcating the habit of regular savings and loan repayment<sup>6</sup> within the group. The members are free to take internal loans of whatever amount (the upper cap is the total savings amount of the group) they require after being approved in the SHG group meeting.

The group meeting takes place once a month which is facilitated by a Group worker and/or the Project Supervisor (both employees of the Federation) where each member has to save at least Rs. 30 per month (the minimum savings amount, in some SHGs it is Rs. 50 and Rs. 100 also, and is decided by the group members themselves). Decisions regarding internal loaning, bank loaning, savings etc are taken at the meeting. The books of accounts are also updated at the meeting itself by the GW and the relevant information exchange between ASA and the group occurs at the meeting itself. After the meeting the savings amount collected net of the internal loan distributed is deposited in the nearby bank<sup>7</sup> by the Chairperson (*adhyaksh*) and

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<sup>4</sup> The two Federations are Ranapur Federation and the Jobat Federation formed in July, 2003 and June, 2004. A Federation is a conglomeration of the SHGs which provides active support to the SHG 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 Ranapur Federation has received a corpus of Rs. 10 lakhs from the DRDA which stands as guarantee/collateral for the SHGs of the Ranapur Federation in the Bank. Both the Federations are democratic bodies as will be explained later.

<sup>5</sup> Major emphasis is on formation of female groups but ASA is not averse to the idea of forming male groups also. Of the 400 groups 304 groups are female groups and the rest 96 groups are male groups (ie, roughly 75% groups are male groups).

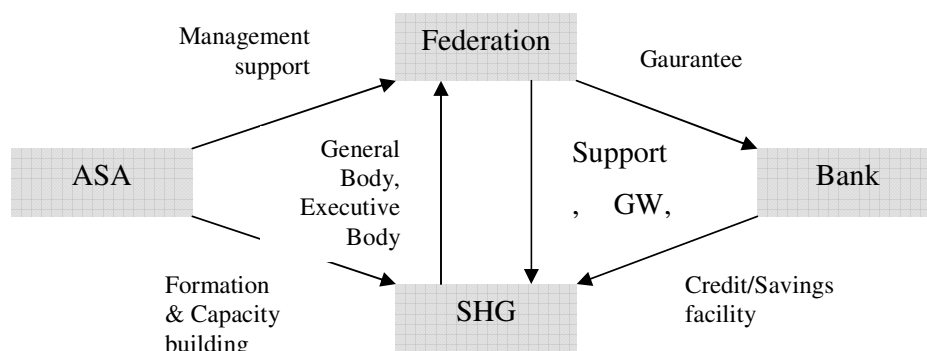
<sup>6</sup> Through timely and compulsory savings every month and through the process of internal loaning and its repayment.

<sup>7</sup> There are three banks in the region namely, Regional Rural Banks (Jhabua-Dhar Kshetriya Grameen Bank) , Bank of Baroda and State Bank of Indore accounting 70%, 15% and 5% of the bank accounts respectively.

the Secretary (*sachiv*) nominated by the group<sup>8</sup>. For withdrawal purpose also only the signature of the Chairperson and the Secretary are valid. Hence, in the process ASA doesn't handle any single rupee.

The SHG – Bank linkage occurs after six months<sup>9</sup> and the SHG applies for loaning<sup>10</sup> which is supported by the Federation and ASA. The money is debited directly into the SHG bank account and the SHG members are free to withdraw this amount whenever required. The Federation acts as the guarantee apart from the group acting as a social collateral. The role of ASA here is formation of SHGs, promoting the Federation and training of the beneficiaries of the programme. Figure 1 below shows the interlinkages between the various organizations.

**Figure 1: Interlinkages between the various organizations.**



The poor pay for the service<sup>11</sup> they receive. The Federation collects Rs. 50 per member per annum<sup>12</sup> (in the first year) as the service charge (*seva shulk*). This amount collected, is

<sup>8</sup> The bank account of the group is opened within one month of the formation of the group with the Chairperson and the Secretary of the group as signatory authorities. Both are from within the group and are democratically elected within the group itself. Hence, even if tomorrow ASA is not there the group can manage its bank account itself.

<sup>9</sup> As per the NABARD guidelines the SHG – Bank linkage should occur atleast after six month of the SHG formation.

<sup>10</sup> The loaning amount is always proportional to the savings of the group. As per the NABARD guideline for the banks the first loaning amount should be twice the savings amount, second must be thrice, third should be four times andetc.

<sup>11</sup> The services includes mainly the service rendered by the Group workers towards maintenance of book of accounts, and the Project supervisors in facilitating the SHG – Bank linkage and the guarantee provided by the Federation in the bank.

<sup>12</sup> In the second year the service charge increases to Rs. 75 per member per annum, while the third year onwards this charge stabilizes at Rs. 100 per member per annum.

utilized to pay the salaries of the Group workers and the Project Supervisors currently. It is unique in the sense that ASA is collecting the service charge directly, most organizations collect this sum indirectly and even in most cases without information of the beneficiaries<sup>13</sup>. At the time of the formation of the group each member pays Rs. 111 (rupees one hundred and eleven), the breakup is shown in Table 1. Apart from this amount the Federation collects Rs. 201 per new SHG and Rs. 20 for old SHGs per annum as Membership fees. This amount is collected to create a fund base for the Federation to meet its costs.

Annexure – I shows the different levels of employees in the organization. It is seen that the ground level staff i.e., the GW and the PS are the employees of the Federation whereas the higher level employees i.e., PL, PC and the BC are employees of ASA and act as advisors to the Federation and are board members at the Federation.

**Table 3: Breakup of the Rs. 111 collected at the time of the group formation.**

Sl. No.	Particulars	Amount	Duration	Collecting agency	Refundable
1.	Membership fund	Rs. 11	Lifetime	SHG	Yes
2.	Service Charge ( <i>seva shulk</i> )	Rs. 50	Annual	Federation	No
3.	Stationery	Rs. 20	Annual	Federation	No
4.	Compulsory Savings	Rs. 30	Monthly	SHG	Yes

#### 1.4. Objective of the Study

The Micro Finance programme of ASA although being seven years old The objective of this study was :-

1. To evaluate the Micro Finance programme at ASA.
2. To find out a cost effective strategic plan to strengthen the existing SHGs and to improve the MF programme.
3. To review the Mc Financier software package used in the programme.

<sup>13</sup> In case where the NGO or Federation acts as the MFI this sum is collected by charging higher interest rates than at which they get the refinance and in case of the SHG – Bank linkage model NGO's or Federations collect a fee in the form of loan tax at the time of any type of loaning (internal, bank or external).

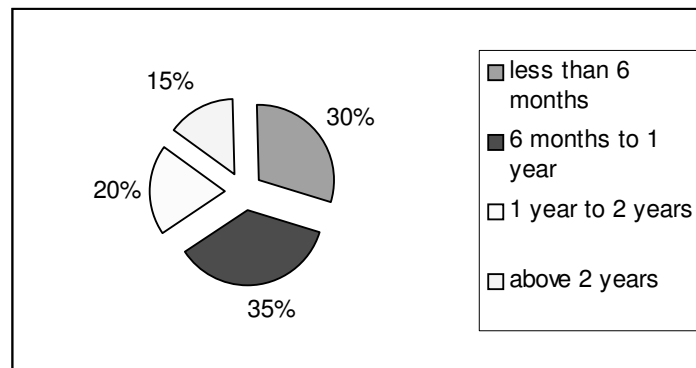
This study has been carried out with keeping in mind the local conditions of Jhabua and Dahod districts of Madhya Pradesh and Gujarat respectively and is applicable to the Micro Finance programme of ASA only. The major objective of this study has been how to improve the Micro Finance programme of ASA to make it more effective, successful and sustainable.

### 1.5. Methodology

Various methods were used to conduct this study. The major way in which the study was conducted was through discussions with the staff members of the Micro Finance programme. Two one-day workshops were also organized at Bori<sup>14</sup> (one of the field offices). Apart from that staff survey was also conducted to get to know individual problems and suggestions of the staff members.

A survey was also conducted of around 40 SHGs across the four blocks of Jhabua district, Ranapur (Ramapur Federation), Meghnagar (Ranapur Federation), Jobat (Jobat Federation), and Udaigarh (jobat Federation). The age wise breakup of the SHGs is as shown in Figure 2. The survey was largely in a mode of informal group discussions to generate qualitative information.

**Figure 2: Age wise breakup of the SHGs surveyed**



<sup>14</sup> On 2<sup>nd</sup> October, 2004 and 7<sup>th</sup> December, 2004. The first one to know the problems they are experiencing across each field unit first hand and how each is tackling their problems. The second one was for validating the observations made and inferences drawn during the SHG field survey.

Survey of two banks – RRB<sup>15</sup>, Meghnagar and SBI, Meghnagar ; was also carried out to know the problems from their perspective and for their suggestions to better facilitate the SHG – Bank linkage programme.

Apart from these there were two exposure visits, to PEDO<sup>16</sup> (Federation members exposure) and PRADAN<sup>17</sup> (staff members exposure). Both the visits were very helpful in providing insights into Micro Finance.

Secondary data was collected from the Monthly Progress report (MPR) generated monthly by the Programme Coordinator and the Mc Financier software used to maintain the database of the SHGs.

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<sup>15</sup> Jhabua – Dhar Kshetriya Grameen Bank, Lead Bank – Bank of Baroda.

<sup>16</sup> Peoples Education and Development Organisation, Dungarpur, Rajasthan ; working primarily in Micro Finance and one of the pioneers in the SHG – Bank linkage model.

<sup>17</sup> Professional Assistance for Development Action, Kesla unit , Micro Finance is one of the interventions to initiate Micro Enterprise development activity.

## CHAPTER - II : ASA an OVERVIEW

In this chapter we look at the needs of the local people. Then we go on to understand the objectives with which the organization, ASA was founded and hence, the objective and history of the MF initiative of ASA. Then, the current status of ASA MF is depicted and some of the observations from the field is analyzed followed by a SWOT analysis of the MF programme of ASA.

### **2.1. A brief demography of Jhabua – Needs of the people<sup>18</sup>.**

Jhabua district is one of the most poverty stricken districts of India. It has the lowest HDI in the state (Madhya Pradesh) and the third lowest in India. Geographically it forms a part of the contiguous tribal belt of Madhya Pradesh, Gujarat and Rajasthan. The district is bounded by Banswara district in northwest, Dahod of Gujarat in the west, Dhule district of Maharashtra, Barwani in south, Dhar in east and Ratlam district of M.P. in the northeast. The Narmada River also forms the boundary of the district in the south. Majority of the population (86%) is tribal with Bhil (65% of tribal population) and Bhilala<sup>19</sup> (32% of tribal population) tribes being the major chunk of this population.

Highly degraded natural resources condition, high population growth, poor infrastructure, low literacy rate (19%) and miserably low per capita land holding (0.021 ha) are some of the problems experienced by the local population here. Although the annual rainfall is around 800 mm but most of the water drains off. Added to that in a cycle of 10 years, five years are drought years and even if there is rainfall it is not timely enough to support agriculture.

All the problems compound together and make life difficult for the rural population. In an average household grain lasts for only six to eight months and migration is inevitable in this

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<sup>18</sup> Annual Report ASA, 2002 – 2003 ; Land Degradation and Its Impact on Livelihoods of Tribals of Jhabua, M.P, report by ASA, Dahod. 31August 03

<sup>19</sup> Bhilalas are the descendants of the Bhil – Rajput alliances and command superiority over the Bhils not only economically but socially also.

region. The migration rate is roughly 65% with 86% of the cash income being derived from migration itself, but the sad part is that approximately 70% of this money goes for debt servicing to the money lenders and the rest is used to meet the consumption needs. Very little money is used for asset building or augmenting their resource base.

Table 2 depicts the need analysis of the rural poor in the area.

**Table 4: Need analysis of the rural poor.**

Economic Status	Resource base	Credit Needs	Purpose	Remarks
Relatively rich among the poor	Land 3 to 4 ha, enough cattle population	Rs. 15,000 to Rs. 20,000 per annum	Consumption purpose like marriage , but mainly for investment in irrigation purposes and buying of seeds and fertilizer.	Migration among these people is almost nil and are able to meet their food consumption needs from agriculture only.
Middle class among the poor	Land 1 to 2 ha and generally no cattle population.	Rs. 10,000 to Rs. 12,000 per annum	Consumption needs are higher. Apart from marriage purposes need credit to buy food also. Productive needs are relatively lesser as they don't have ability to invest in irrigation. Need	Migration I seasonal with average around 4 to months. Not able to meet their food consumption needs entirely from home production. Non productive needs are higher

			only for purchase of seeds and fertilizers.	as compared to their above counterparts.
Poorest of the poor	Generally don't have land and no cattle population	Rs. 8,000 to Rs. 10,000	Almost entire needs are for consumption purposes like marriage and food. Productive needs are negligible as they have almost no land and depend primarily upon wage labour for their income	Migration is very rampant among them with almost round the year migration. Whatever they need is for consumption which is repaid through income from migration.

If we look closely at Table 2 we can see that the needs of the various strata of people differ accordingly, most striking of the problems is that the credit needs for consumption purposes is very high and repayment is largely financed through migration and/or wage labour. Due to lack of productive resources and degraded natural resources investment in productive uses is very low hence, return through them is also very low.

## 2.2. History of ASA MF

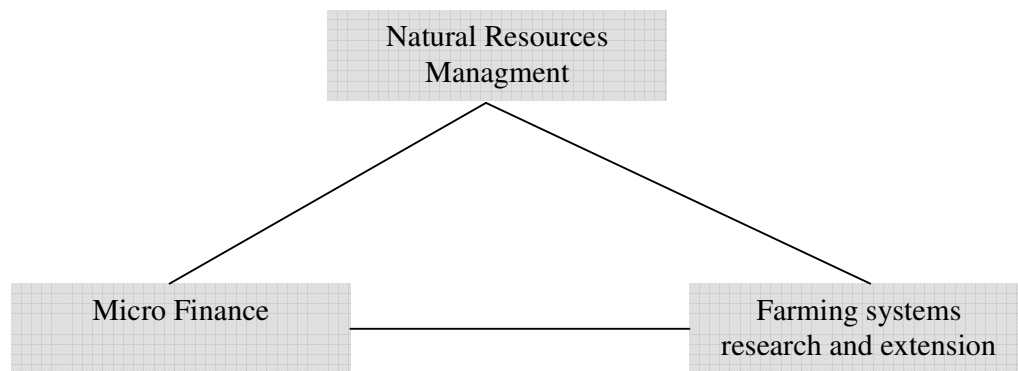
ASA was formed in 1995 with an objective of mobilizing and empowering community based institutions to undertake livelihood improvements, through intensive capacity building interventions and to develop low cost and replicable participatory approaches to integrated community based natural resources management<sup>20</sup>. The initial area of operation was Dahod block of Dahod district, Gujarat and Meghnagar, Ranapur, Jobat and Udaigarh blocks of

<sup>20</sup> Annual Report, ASA, 2002 - 2003

Jhabua district, Madhya Pradesh. The operations in Dahod district has considerably reduced with the focus shifting towards the above mentioned four blocks of Jhabua district.

The primary intervention that was planned was augmenting the largely degraded natural resource base to improve the livelihoods of the community through Watershed and River Basin Development interventions. It was realized in 1996 that to successfully implement the above-mentioned activities forming self help groups would be a better approach. Hence, SHGs were formed to implement the programmes and as a side activity savings and credit functions were also started. The approach of ASA for the poverty alleviation initiatives was a three pronged approach as shown in Figure 3.

**Figure 3: ASA's approach for development of Jhabua district**



After formation of SHGs, Micro credit activities used to be started and thereafter watershed activities in the river basin used to be accomplished. Thereafter, farming systems research and extension activities would be undertaken. However, over the years it was seen that the SHGs would breakup after the NRM and the FSR activities would be over, but it was also realized that Micro Finance had a considerable potential to be a source of poverty alleviation. Hence, in 2003 it was decided to separate Micro Finance from all other activities and start as a separate programme altogether<sup>21</sup>.

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<sup>21</sup> In spite of six years of operation (1997 – 2002) only around 80 SHGs were functioning well, which to broke soon. Today, December, 2004 after eight years of operation the eldest SHG is four years old.

In January, 2003 funding from PHF was obtained for a period of three years<sup>22</sup>. The funding includes budget for capacity building of beneficiaries and the administrative costs of the programme. Given the past experience the ASA MF programme it has been decided that the NRM and FSR activities would be separated from the MF activities and Micro Enterprise development activities would be considered at a later date. Hence, the approach to the MF programme of ASA currently is of forming Savings and Credit Group rather than a SHG.

On 18 July, 2002 Ranapur Federation took birth with an objective to provide support to the SHGs for improved access and streamlining of the institutional credit system. Apart from capacity building of the community based organizations it also endeavors to provide an organized platform to the rural community to voice their concerns and develop linkages with other governmental and non-governmental organizations for overall development of the block. About 80 SHGs promoted by various organizations joined this Federation, however, soon non-ASA SHGs left it and now about 200 SHGs promoted by ASA form the membership base of this Federation. A similar Federation for the Jobat and Udaigarh blocks<sup>23</sup> took birth in September, 2004 and has a membership base of approximately 150 SHGs.

### **2.3. Objectives of ASA MF**

The broad objectives of the ASA MF programme as identified by ASA are :-

1. Creating a self-sustainable commercial organization.
2. Breaking the vicious cycle of poverty and debt.
3. Meeting at least half the credit needs of the beneficiaries.
4. Forming 1,000 SHGs by the end of December, 2005.

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<sup>22</sup> January, 2003 to December, 2005

<sup>23</sup> The Federation will be split into two i.e., the Jobat Federation and the Udaigarh Federation once the membership base of each reaches around 150 SHGs.

The logic behind ASA wanting to create a self-sustainable commercial organization (Federation) is that it wants to promote organizations owned and managed by the communities themselves. Even if ASA ceases to exist in the future then the Federation is able to provide support to the SHGs and provide a platform for development of the beneficiaries. It can happen only if the Federation is able to financially and economically sustain itself and to sustain itself there must be sufficient number of SHGs also, hence, the next objective of forming 1,000 SHGs is derived from this objective. If ASA is able to form 1,000 SHGs then it will provide a platform to create an organization which is self-sustainable.

As mentioned previously, one of the major drain on the income of the rural poor is debt servicing. The local moneylenders charge anything between 60% to 240% (the average being 120%) interest rates. Social practices like marriages and *nauhtra*<sup>24</sup> require a lot of money and its repayment is a great burden on the family. Apart from that for needs like purchase of seeds, fertilizers and food the poor people have to take loans from the local money lenders. Higher the land holding higher is the credit requirement for productive purposes and lower the land holding the higher is the credit requirement for consumption purposes. Hence, ASA visualizes that first and foremost if the villagers are able to break the cycle of debt and debt repayment then a lot of money can be saved for the purpose of investment into productive purposes or asset building.

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<sup>24</sup> It is the amount that is given by the relatives of the bride/bridegroom to the respective family members at the time of marriage. The amount varies between Rs. 500 to Rs. 3,000. The practice is that if family A gives Rs. 1,000 in *nauhtra* to family B then at the time of marriage in family A, family B will have to give Rs. 2,000 as the *nauhtra* i.e., twice the sum.

Case study of Ma Kali Mahila Bachat Samiti

Ma Kali Mahila Bachat Samiti had availed a loan of Rs. 17,000 from the Bank of Baroda, Kannakakad. The SHG repaid the loan amount in nine months as compared to twelve months which was the deadline to repay the loan. The Table 3 shows the financial savings of the members by availing a bank loan as compared to taking a loan of the same amount from the local moneylender.

**Table 5: Financial savings of the SHG by availing a Bank loan as compared to loan taken from money lenders**

Particulars	Amount
Amount of Loan taken	Rs. 17,000
Period of the loan taken	9 months
Interest received by the SHG (2% pm.)	Rs. 3,060
Interest paid to the Bank (12% p.a.)	Rs. 1,530
Interest that would have been paid to the moneylender (10% pm)	Rs. 15,300
Savings within the group	Rs. 13,770
Savings per member (12 members)	Rs. 1,147.50

For a starting the objective of ASA is to meet at least half the credit needs of the beneficiaries (within the first three years) and then gradually go on to meet the entire credit needs of the local community.

#### **2.4. Current Status of the ASA MF programme**

Currently, till October, 2004 ASA has formed 400 SHGs of which approximately 23% of the groups are male groups and the rest 77% groups are female groups. The total membership base has reached 4647 beneficiaries and have achieved a savings amount of Rs. 24,81,717 as

compared to total credit disbursed amount Rs. 68,50,850 of which Rs. 45,55,337 is the amount of credit availed by the SHGs from the banking system<sup>25</sup>.

Year wise progress of the number of SHGs formed is as shown in Table 4

**Table 6: Year wise progress of the SHGs**

Year	SHGs formed	Cummulative
before 2003	80	80
2003	176	256
2004 <sup>26</sup>	144	400

As we can see in the Table 4 above most of the SHGs are new SHGs with only 20% of the SHGs being older than two years in spite of the programme being run since 1997, and most of the progress has been made since 2003 the year since it has been operating as a separate programme. Hence, the programme is still in a learning phase and in a nascent stage. Given the ground realities and the demographic conditions, according to the figures indicated above the progress made in the past two years is commendable. However, the health of the SHGs are still under a bit of question mark as the SHG breaking rate is quite high and a few of the basic principles of an SHG seem to be absent.

However, it is the correct time to initiate steps to identify and plug in the holes in the programme so that it is more effective and beneficial for the beneficiaries.

## **2.5. Some Observations in the field**

During the field survey, workshops and the discussions with the staff survey some of the observations made are :-

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<sup>25</sup> Monthly Progress Report, October, 2004

<sup>26</sup> Till October, 2004

1. There is ignorance about internal loaning within the SHGs. As a result almost all of the savings amount keeps lying in the bank account unutilized and the saving interest rate being very low (3.5 % per annum), the rate of growth of group fund is very slow. Currently the entire internal loan taken is for consumption purposes and emergency purposes. Internal loan generates a return of 2% interest per month and facilitates in rapid growth of the group fund. As the bank loan amount is proportional<sup>27</sup> to the group fund the higher is the group fund amount the more will be the credit limit that the SHGs can get access to.
2. The major chunk of the beneficiaries (approximately 95%) belong to the middle class families among the poor. That is the ASA MF programme is not targeting the poorest of the poor. Given the banking conditions of regular savings and meetings it is very difficult for the poorest of poor to be a part of the programme as they are mostly on migration. Hence, according to the present conditions it would be advisable also to ignore the bottom most of the rural poor and work with the middle class families. Only after the programme reaches a stable position then strategies must be devised so as to effectively target this population.
3. One of the major shortcomings of the SHG – Bank model is that the loan amount is generally inadequate.

Case Study Holi Mata Mahila Bachat Samuh, Betwasa

The SHG Holi Mata Mahila Bachat Samuh, Betwasa was formed in November, 2003. There are ten members in the group and each save Rs. 30 per month. The savings amount accumulated till date is Rs. 4,110 only and its loan application is pending in the Bank. The loan amount it is eligible for is Rs. 8,220 only i.e., only twice the savings amount. The loan amount per member stands at Rs. 822 only which is only 10% of the annual credit requirement of any member.

<sup>27</sup> The average multiplying factor is two i.e., the loan amount that the SHG can avail of is twice the amount of the group fund.

By following this model ASA is also suffering from the same problem. One of the outcomes of this inadequacy is that the beneficiaries are not able to get out of the vicious cycle of the debt at the moneylender and hence, loose interest in the group activities very fast. This is one of the reasons why the group break. Also for the programme to be more beneficial it has to meet at least the credit demand that needs to be repaid to the money lender to break this vicious circle.

4. The foundation for any developmental initiatives are the ground level workers. If they work well then they are the greatest asset for the organization and if they don't work well then they are the greatest liability. The ground level workers called the Group workers in the MF programme have laxity in their attitude. Due to this they don't visit the groups regularly and there are signs of shortcomings in their performance also. One group worker is supposed to manage around 300 members and they are required to meet this target in one year. However the average number of members with one group worker works around 145 members<sup>28</sup>. Similarly one Project Supervisor is required to handle 1,500 members each while the average works out to 664 members only<sup>29</sup>. Hence, there is a problem of non-performance of not only meeting the requisite targets but also holding of regular meetings with the existing SHGs.
5. The above mentioned problem is a symptom of the problem of lack of a proper monitoring system. There is a lack of a proper monitoring system and the higher level employee have to make efforts to get data and information from below. Proper checks and balance measure must be introduced so as to effectively and efficiently monitor the performance of each level of employees.
6. The approach of ASA is a supply focused approach. It is just trying to know the demand and trying to fulfill this demand. Here, ASA should try and make interventions so as to reduce the wasteful expenditures and credit needs like for the purpose of drinking and the marriage purpose. Marriage purpose forms the bulk of

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<sup>28</sup> There are a total of 4,647 members and 32 group workers.

<sup>29</sup> 1,500 members since one Project Supervisor is supposed to handle 5 GW's and they in turn 300 members each. Total membership base is 4,647 and the number of PS are 7.

their credit need and if ASA is able to reduce this demand then the programme can be more effective and the vicious cycle can be broken more easily.

7. The minimum compulsory savings amount proposed by ASA is Rs. 30 per member per month. It was seen that in the Pitol unit (Ranapur block) that most of the groups were saving Rs. 50 to Rs. 100 per month whereas in the rest of the blocks the savings amount was only Rs. 30 per member month. However, it was also noticed that the people in the Pitol unit were the poorest (and were Bhils) as compared to the rest of the units (where the majority were Bhilalas, especially in Jobat and Udaigarh blocks).
8. Currently due to the target of forming 1,000 SHGs by December,2005 the focus is on formation of groups. However, once the group is formed there is neglect and slowly disintegration of such groups start. There is a need to strengthen the groups also because it cannot be expected that overnight by just formation of the group the mindset of the poor tribals will change. There is a need for strengthening of the groups so that they survive that critical period (from formation to second loaning) so that the SHG survives and proves beneficial for the members.
9. At the time of formation of the SHG there is a promise made by the PS or the GW that the bank linkage will be fostered within six months which invariably happens. This is because the bank linkage depends upon the bank and not ASA and until and unless the bank is satisfied the linkage doesn't occur.
10. There are problems in bank linkage also. The bank generally don't prefer lending to SHGs and delay the bank loans unnecessarily even if the SHG conforms to all the requirements. They provide loans to only that many number of SHGs by which they will be able to fulfill their targets. It was also seen that all the problems occur in the first loaning only. Successful repayment of the first loan smoothens the process and the second loan onwards the problem of loaning ceases. The loaning problem is more severe in Kathla unit of Dahod where not a single SHG has been financed in spite of more than a year of formation.

11. It was also seen that there is overlap of roles and responsibilities between the various staff members. Due to this overlap of duties many things get missed in the process and time is wasted in doing things which should be the responsibility of the subordinate to do.
12. One of the most striking observations was that the bank loan amount is always equally divided among the SHG members. Say a loan of Rs. 10,000 gets sanctioned and there are 12 members in the group then each of them receive Rs. 850 irrespective of the needs and purpose of the loan requirement.
13. It was claimed by several of the staff members that the SHGs pose a problem in paying the service charge (*seva shulk*). However, during the field survey it was seen that all the SHGs were ready to pay the service charge provided they derive some benefit from the group. By benefit they refer to the bank linkage and adequacy of the loan amount.
14. It was found that there were evidences of overlap in the work area. It not only occurs at the GW level but also at the PS and the BC level. Each GW, PS and BC have well defined areas of operation. However, it was seen that GW A entering GW B's area for formation of groups. Also, PS of Jobat unit and one of the PS of the Udaigarh unit occasionally encroach each others area for formation of groups. This is an unhealthy practice and increases the travel cost and wastage time in traveling.
15. One of the serious problems seen was that of discrepancy in the data reported. It occurs at all levels from the GW to the PC level. At the lower levels it was seen that generally there are mistakes in preparing of reports due to inefficiencies in the GW, however, most of the reports verified by the PS and the BC still carry the same mistakes. In the MPR it was seen that there were some serious inefficiencies (explained in Annexure – II) and inconsistencies occurring either by default or design.

16. One of the best points of the ASA MF programme was the level of trust it has been able to build among the beneficiaries. The basic reason why it has been able to build up this trust is that it doesn't handle a single penny of money. The SHG members themselves deposit their savings amount and draw their loan amount from the bank has helped to create a level of trust in ASA<sup>30</sup>.
17. One of the objectives of the organization is community empowerment and such evidence can be amply seen in the MF initiative also. After the MF intervention the poor villagers (both men and women) have for the first time gone to the bank and it has gone a long way in dispelling many of the apprehensions among the villagers about the towns, banks and government institutions. Truly, some amount of empowerment has occurred and today the villagers don't hesitate to go to the banks whether SHG purpose or personal purpose. Moreover, due to the various forums created for the villagers to speak by the federation the poor villagers are more forthcoming to voice their concerns at the federation meeting ranging from day to day activities to politics.

## 2.6. SWOT Analysis

The SWOT presented in Table 5 shows the strengths and the weaknesses of the organization and the opportunities and the threats that exist in the environment.

**Table 7: SWOT analysis of the MF programme**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• It is a unique model and is tending towards self sustainability (however, the march towards it is very slow and there are many more milestones still to reach.)</li> <li>• The programme has been able to build a great level of trust among</li> </ul>	<ul style="list-style-type: none"> <li>• The employees of ASA particularly the Group workers are not that educated and have problems even in maintenance of records. They find it hard even to calculate the interest accrued.</li> <li>• Among the top level employees</li> </ul>

<sup>30</sup> In the past two NGO's and innumerable Aganwadi teachers and government officials, entrusted with the responsibility to form SHGs for MF activities have run away with the savings and the loan amount of the poor beneficiaries.

<p>the beneficiaries.</p>	<p>among some it was seen that there was lack of commitment. They did not even knew what percentage rate of interest the Bank charged for their loans to the SHG's.</p> <ul style="list-style-type: none"> <li>• The service charge collected by the Federation is insufficient if the Federation wants to breakeven economically<sup>31</sup>.</li> </ul>
<p style="text-align: center;"><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• There is increased emphasis on Micro Finance nowadays from the side of the government. NABARD and many other funding agencies are also investing huge amounts of money to promote Micro Finance (especially Livelihood Finance) nowadays.</li> <li>• The coverage of the formal institutions in Jhabua district (where currently ASA is working) is very low. Hence, there is huge scope to bring them under the formal purview</li> <li>• ASA has earned a good name for itself through the Watershed projects undertaken in this district. Hence, there is scope for it to link this to Watershed also so that the people can reap better benefits of both.</li> <li>• There are many SHG's in this district which have been formed by the ICDS and the Janpad panchayats, but have been left on their own mainly. So, if ASA can successfully bring them under its Federation then the sustainability of the Programme will not be under much question.</li> </ul>	<p style="text-align: center;"><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• The major threat is that the programme of ASA envisages to link the SHG to the existing formal Banking structures and it wants itself to remain as the facilitator only. Hence, much depends upon the bank for loan disbursement. Invariably the Banks don't give the money on time or refuse to lend money based on their judgment about the village rather than the SHG itself.</li> <li>• There is excess dependence on the Banks. Due to changing norms and regulations it is very difficult to set norms for all. Also say just now the norm has changed that the Bank cannot lend less than Rs. 25,000 towards group loans. Now the Bank lends only upto twice the amount saved by the group. By that logic then the group saving must be Rs. 12,500 atleast. However, to save this amount an SHG of 13 members will take atleast one and a half years to do so.</li> <li>• Rate of loan repayment very low at around 75%.</li> </ul>

<sup>31</sup> Calculations shown in Annexure - III

## CHAPTER – III : EMERGING ISSUES

This chapter tries to identify the emerging issues at hand and what are the ways forward in which the organization can move. It then further tries to analyse the options given the constraints that the organization has.

### 3.1. Emerging Issues

Before going on to suggest whether there should be any changes in the programme or not and if yes then what changes should be made there are some issues which need to be kept in mind. The objective is not to evaluate the performance of the programme as such but in relation to their basic objectives and the rationale with which this has been started.

Firstly, besides providing easy access to institutional credit mechanism the objective of the SHGs are also to provide timely<sup>32</sup> and adequate loan amounts. There would be no meaning if credit facility were available when the beneficiaries don't need it, or the amount is not adequate. In both cases the poor beneficiary will have to revert back to the money lender and remain in the same vicious cycle of poverty and debt servicing. One of the basic objective of the programme identified is of breaking this cycle and efforts have to be made to meet this objective. Hence, inadequacy of loans and non-availability of timely credit is an impending issue, which needs to be sorted out in the near future to improve the effectiveness of the programme.

Secondly, due to past experience ASA has learnt that clubbing two or three activities is harmful for the MF programme. However, there is a need to start some income generating activity at some later point of time. The groups are currently functioning as savings and credit groups and the source of both savings and credit is largely migration. In addition the loans taken are seldom used for asset building or starting any entrepreneurial activity. Hence, some micro enterprise development of asset building activities (may be both on group basis or individual basis) should be started after the groups mature. It is not necessary today but three

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<sup>32</sup> The majority of the credit need is before the Holi festival (March) and just before the kharif sowing season. The demands being 30% and 65% approximately. There is some need before the rabi sowing season in cases where irrigation facility is available.

to four years down the line such activity would become very necessary and would be very beneficial in making the programme more effective.

Thirdly, the programme is still in a learning phase. The majority of the work done has been accomplished in the past two years only. Moreover the MF team, which is working, has been together from the past one and half years only. Hence, before making any major strategic changes this has to be kept in mind also. In addition the team lacks professional staff and among the current staff members none of them has had any prior experience in MF, due to which the team is finding a bit difficult to cope with the speed at which the programme is moving.

Fourthly, under the PHF funding the salaries up to the level of the Block Coordinators are paid by the funding agency. The salaries of the lower level staff i.e., the GW and the PS are to be paid by the Federation. Currently however, there is some difficulties being experienced in drawing the salaries of even the GW's from the Federation. The balance amount is paid by drawing on loans from the ASA fund. From the past two months also the salaries of the GW's and the PS have not yet been paid due to shortage of funds in the Federation<sup>33</sup>. Hence, there is an immediate need for the Federation to be self-sustainable for if the Federation is not able to pay the GW's and the PS's on time then the motivation for work and the commitment towards work will decrease.

Fifthly, although it has been one and a half years since the Ranapur Federation has been formed and five months since the Jobat Federation has been formed, they have not yet been able to develop as independent organizations. The influence of ASA is still very strong and very little decision making power rests with the executive body of the Federation. Strengthening of the Federation and the Federation members should be one of the priorities so as to make the Federation an independent body which can act as a platform for the beneficiaries to not only voice their concerns but also provide for their own development.

Sixthly, it was felt that the MF programme has not yet been able to develop an adequate monitoring system. An efficient and effective monitoring system is required not only for proper functioning of the programme but also to assess the performance of the employees and

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<sup>33</sup> The income source of the Federation is the Rs. 50 service charge (seva shulk) charged from the SHG members per annum.

to confirm integrity in data flow. By monitoring here it does not mean physical verification that really the employees go in the field where they are supposed to, but it means verification that the work that was supposed to be done was really done when supposed to be or not.

Seventhly, in continuation from the above point it is felt that a proper MIS need to be built up and there is a need to simplify the form and formats used for data reporting currently. This will not only aid the lower level staff for ease in sending upwards the correct data but will also help the organization by developing data integrity and consistency.

### **3.2. Possible ways forward**

Given the current scenario there are largely three ways forward from here. They are continuing as it is, continuing with some strategic changes and converting the Federation into an MFI. All of these ways are fraught with costs and benefits and a analysis is to be done as to which path will benefit the most with imposing the least cost<sup>34</sup> upon the organization. A brief analysis of the ways forward is done below.

#### **3.2.1. Continue as it is**

The current tendency of most of the employees is to look outside the organization to find the problems experienced in the functioning of the programme, and there is a strong tendency of not to move away from the current practices. The view of most of the employees (the ground level staff members mainly) is that the current problems are due to external agencies (the banks) and there is no need to change the strategies of the programme in response to it.

- Costs of continuing as it is :

If the programme is continued the same way as it is running then it is unsustainable<sup>35</sup> and not manageable. ASA corpus has already lent a sum of approximately Rs. 1 lac towards paying the salaries of the GW and the PS which the federation is supposed to pay because of shortage of funds. If continued further then it will not reach

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<sup>34</sup> By cost here we mean not only financial cost but also the non financial costs and the transactional costs. That is the efforts required to put in place a new system and make it operational.

<sup>35</sup> See Annexure - IV for details for unsustainability.

sustainable levels (see Annexure - IV ). Further we can see that the programme has become 5 times its size in a span of two years and the growth has been rapid and the employees are not being able to cope with the speed<sup>36</sup>. In addition to these due to the inefficiency levels within the organization the programme will disintegrate and will be a liability for the organization rather than an asset.

- Benefits of continuing as it is :

There is only one benefit in continuing as it is and that is any change is painful and many employees will have to increase efficiency levels or will be transferred and or monitored which they might not prefer. Hence, many would like that there should not be any change.

### 3.2.2. Continue with some adjustments

It is felt that the current model for micro finance delivery is very good and suits the local conditions very well, however, there exists some gaps in the programme. If these gaps are filled up then the programme can be both effective and efficient in meeting its objectives.

- Costs of continuing with some adjustments :

The costs that seem in bringing about the changes is that the initiative has to come from within the employees. The changes have to be implemented by the lower level employees mainly and there must be enough motivation to do so.

- Benefits of continuing with some adjustments :

It will be very beneficial if some adjustments are made to the existing programme. It will not only help in better managing the growth that is taking place and boost the chances of making the organization sustainable in the long run. It is very important currently to especially meet the objective of turning the federation into a self sustainable commercial organization.

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<sup>36</sup> The evidence of it can be seen from the fact that the database management system is in shambles in spite of a software being used. However, it doesn't seem that there is unnecessary pressure on the employees but that the employees are not working with efficiency levels that they are capable of and have a very lax attitude.

### 3.2.3. Converting the Federation into an MFI :

Many of the employees (especially the middle level) feel that ASA must consider setting up its own bank that will service the SHGs because of the problems caused by the banks. However, it is felt and the top level employees don't agree with this view point.

- Costs of converting the federation into an MFI

The basis of the trust of the beneficiaries in ASA is that ASA does not handle a single paisa of money and converting into an MFI will break this trust. Moreover, converting into an MFI would require the employees to act as bankers which they are not capable of and will increase their responsibilities immensely. In addition to that since repayment is not the responsibility of ASA and if the federation converts into an MFI then the responsibility of repayment will also be of the employees. For converting into an MFI also a huge amount of funds will be required (approximately Rs. 1 crore) which will have to be outsourced from outside and the funding agency may impose some constraints on the organization also. As shown in Table 6 we can see that a minimum of 13% interest rate per annum must be charged by the federation from the SHGs for positive return whereas the SHGs are currently availing the loan services at less than 12%<sup>37</sup> interest rate per annum<sup>38</sup>.

**Table 8: Internal Rate of Return (IRR) at various interest rates<sup>39</sup>.**

Interest Rate	IRR
12%	-35%
13%	0.6%
14%	22%

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<sup>37</sup> The RRB's charge a flat 12% interest rate per annum simple interest whereas State Bank of India charges 9.5% interest rate per annum simple interest.

<sup>38</sup> A counter argument can be put forward that the higher rate of interest is charged due to timely and adequate and availability of the loans.

<sup>39</sup> The detailed calculations for the IRR and the relevant assumptions are shown in Annexure - V

- Benefits of converting the federation into an MFI

If the federation is converted into an MFI then a lot of dependence on the external agency (that is the bank) will get considerably reduced. Then timely availability and adequate amount of loans can be provided to the SHGs. The growth of the SHG number will also be faster and the move towards sustainability and self sufficiency will be faster.

Considering the three paths suggested it is felt that although the last path is the best, the second path, that is continuing with some adjustments is the optimal one given the constraints of the organization. The organization lacks both financial and human resources to convert the federation into an MFI and hence, it is not possible at this stage to undertake such a step. Change at this stage also seems inevitable and if the changes do not occur now then the programme will move towards disintegration.

## Chapter IV : RECOMMENDATIONS

This chapter contains the suggested recommendations and the conclusion of the study.

### 4.1. Recommendations

As per the discussions in the previous chapter it is clear that the programme must run as it is with some adjustments and changes in the strategy (more operational than strategic). Some of the most important changes that are suggested are :

- **Increased emphasis on internal loaning** : There must be an emphasis on internal loaning. This can be brought about by educating the group workers of the importance of internal lending and then they can in turn gradually change the mindset of the beneficiaries. The moot point must be that internal loaning helps increase the group fund faster as the interest paid is retained within the group itself. Hence, when the group goes for bank loan then the amount being higher than the loaning amount will also be higher. Apart from this, one of the important criteria of the bank in rating the SHGs before giving loans is that there must be successful internal rolling of capital and the repayment rate of the internal loaning.
- **Enter into MoU with some Bank** : State Bank of Indore and ICICI bank have approached ASA for an MoU. It is felt that such an MoU will be beneficial for the MF programme and must be entered into. However, care must be taken while framing the MoU guidelines for it can make or break the programme<sup>40</sup>.
- **Increase the minimum savings amount to Rs. 50 per month per member** : The minimum compulsory savings amount must be raised from Rs. 30 to Rs. 50 per member per month. As higher the minimum compulsory savings amount the higher is the rate of capital accumulation within the group, hence the loaning amount will also

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<sup>40</sup> It must help in ensuring timely availability of loans and adequacy can be also negotiated with.

be higher as the loans disbursed are in proportion<sup>41</sup> to the savings amount. Annexure - VI gives an illustration as to how the loaning amount will be higher.

- **Increase the service charge to Rs. 75 and prepare for a move towards a variable system (ex : 1% loan tax)** : As shown in the calculations in the Annexure - III the programme is unviable at a service charge rate of Rs. 50 per member per annum (even if all the employees are handling the maximum number of subordinates they are supposed to handle). Although at Rs. 75 also it is not attractively viable however, suddenly increasing the service charge by a huge amount will have an adverse impact on the programme. In addition a way should be paved for introducing sort of a variable tax system to bring in buoyancy in the collection amount for example a 1% loan tax amount.
- **Salary of staff be performance based** : The salary of the staff must be performance based. Currently they are receiving a fixed pay scale and little incentive for promotions etc. hence, the performance levels are declining rapidly. Hence, the salary must be performance based and some parameters like groups formed, members handled, credit disbursed, meetings held etc. must be put in place with appropriate weightages given according to the need of the time. Moreover, the at the current salary levels (although very low) is unsustainable for the programme due to low levels of efficiency. (See Annexure - IV )
- **Need for professional staff** : Trainings currently are handled by anyone and everyone. However, it should be handled by one person only and must be a professional staff<sup>42</sup> . Similarly, it was felt that the programme coordinator and the other staff members did not have the requisite financial acumen required to advise and guide the groups in financial matters. Hence, a person specialised at this task must also be included in the programme.

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<sup>41</sup> The proportion generally is 1:2 ie, the loan amount is twice the savings amount. In some cases the ratio has gone upto 1:4 (in the older SHGs with good reputation for repayment)

<sup>42</sup> By professional it is not meant degree holders but those who are adept at this work and do it professionally.

- **Change from a 90:10 to a 60:40 ratio** : Currently 90% of the profits of the SHG are distributed by the SHG as dividends while only 10% is retained as reserve fund. Since, it is seen that larger the group fund the less is the incentive to break from the group and currently there is not much awareness about the dividend hence, changing from the current ratio to a 60:40 ratio will not be much resisted against and in the long run improve the performance of the programme.
- **Simplify the reporting forms and monitoring through a proper MIS** : The current data reporting system is flawed with many discrepancies in it. The major reason for it is complex reporting forms and lax attitude at the top level. No cross check of data or data analysis is done at the top level also. Hence, proper monitoring and data analysis must be done at regular intervals and the reporting forms must be simplified so as to facilitate the data flow. Annexure - VII shows the revised formats for data reporting at all levels.
- **Delay in the Bank linkage** : Currently it is promised at the time of the group formation that the bank linkage will occur within 6 months, however, the bank linkage is in the hands of the bank and not ASA. Hence, such promises must not be made and it is also that the larger the delay the more is the capital accumulation. Hence, the first loaning amount will also be higher. (shown in Annexure - VI )
- **SHG grading** : There must be a proper SHG grading system. The current system is a mere process for the bank only and the parameters specifies are not adequate enough also. Currently it is also a practice that all the SHGs are allowed for bank linkage, but it should be that a minimum level must be reached and only after that the SHG must be allowed to apply for bank linkage. SHG grading will help in this process.
- **Redistribution of SHGs among the Group Workers** : As there is overlap of the work area there must be a redistribution of SHGs so that this overlap can be removed and the transaction time involved during travelling can be removed.
- **Better utilisation of the Membership fund (Rs. 200)** : The membership fund collected from each group during formation ie, Rs. 200 and Rs. 20 thereof from the

second year onwards is currently being utilised to pay off the salaries of the Group workers and the Project supervisors. This fund must not be used for this purpose and instead must be utilised to create a corpus fund for the federation which in turn can act as the guarantee for the SHGs in the bank (as in the case of Ranapur federation).

- **Customisation of the Mc Financier software or prepare a database management system on own** : The current software being used is not suitable for the needs. As it has been developed for the PRADAN model which is quite different from the ASA model. Hence, there is a mismatch between the data that needs to be feeded in the software and the data that can be actually feeded. Moreover, although the software is being used from the past one and half years the reports are still being generated manually in excel and there is no use of the software or any of its output in preparing the reports.

#### **4.2. Conclusion**

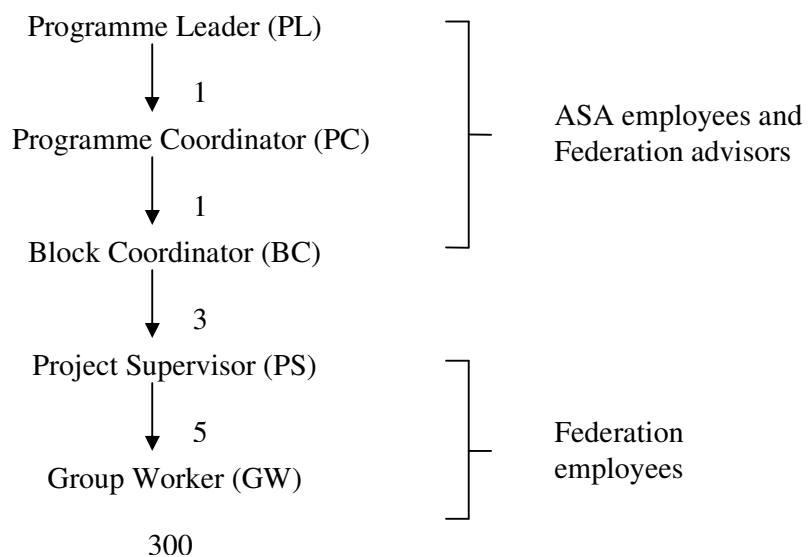
The current model has the potential to be a successful model. However, the weak gaps need to be filled in and the implementation must be carried out in its true spirit. Much depends upon the ground level staff and they form the backbone of this initiative, hence, they must be properly motivated and trained sufficiently so as to ensure proper and successful implementation of the initiative. The number of SHGs currently ie, 432 is a sizeable number and it is felt that there is much potential to cross the 1,000 mark as envisioned by the organization.

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### Hierarchial levels in ASA



1. It is envisaged that there will be one Group Worker per 300 beneficiaries
2. It is envisaged that there will be one Project Supervisor per 5 Group Workers
3. It is envisaged that there will be one Block Coordinator per block
4. There will be one Programme Coordinator
5. There will be one Project Leader

## Analysis of the ASA MF - MPR

Month	Number of SHGs	Percentage increase over the last month	Number of Members	Percentage increase over the last month	Savings	Per member saving during the month	Percentage increase over the last month (saving)	Savings per Member	Loans disbursed	Percentage increase over the last month (loan disbursed)	Bank loan	Percentage increase over the last month (bank loan)
April	307	-	3,554	-	1,527,665		-	430	3,668,012	-	2,918,197	-
May	350	14%	4,014	13%	1,696,553	42	11%	423	3,749,129	2%	2,988,197	2%
June	355	1%	4,030	0%	<b>1,873,640</b>	44	10%	465	6,315,949	<b>68%</b>	2,988,197	0%
July	376	6%	4,329	7%	1,923,823	12	3%	444	6,658,769	5%	2,988,197	0%
August	354	-6%	4,105	-5%	1,998,233	18	4%	487	6,824,879	2%	4,480,337	50%
September	379	7%	4,406	7%	2,483,118	<b>110</b>	24%	564	6,748,714	-1%	4,480,337	0%
October	400	6%	4,647	5%	2,481,717	<b>-0.30</b>	0%	534	6,850,850	2%	4,555,337	2%

(continued)

Internal loan	Percentage increase over the last month (internal loan)	Percentage of Internal loan to savings	Loan per SHG	SHGs linked with Bank	Percentage increase over the last month (SHGs linked with the bank)	Bank loan per linked SHG linked	Internal loan per member	Villages	SHG per village
749,815	-	49%	11,948	100	-	29,182	211	90	3.4
760,932	1%	45%	10,712	103	3%	29,012	190	99	3.5
<b>3,327,752</b>	<b>337%</b>	<b>178%</b>	17,791	103	0%	29,012	826	100	3.6
3,670,572	10%	<b>191%</b>	17,709	160	55%	18,676	848	100	3.8
2,344,542	-36%	<b>117%</b>	19,279	167	4%	26,828	571	104	3.4
2,268,377	-3%	91%	17,807	167	0%	26,828	515	138	2.7
2,295,513	1%	92%	17,127	170	2%	26,796	494	117	3.4

**Break-even Analysis of the MF programme at different levels****Fixed Costs of running the programme**

## Salaries

Programme Coordinator	120,000	
Computer Operators	48,000	
MIS personnel	96,000	
Block Coordinators	216,000	480,000

Travel allowance for meeting purpose 12,000

Office maintenance (includes stationery, rent, other costs etc) 36,000

<b>Total</b>	<b>528,000</b>
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**Variable costs of running the programme**

## Salaries

Group Workers	per member	34		
Supervisors	per member	28	62	Total

**Revenue Sources**

Seva Shulk	per member	50,75,100	
Membership fees	per member	17	(new SHG)
	per member	2	(old SHG)

**Breakeven Analysis (at programme level)**

Seva Shulk collected	Membership fees	Total Revenue	Total Variable Costs	Contribution per member	Breakeven number of members	Breakeven number of SHGs
50	17	67	62	5	113,143	9,429
50	2	52	62	-10	-	-
50	0	50	62	-12	-	-
75	17	92	62	30	17,798	1,483
75	2	77	62	15	36,000	3,000
75	0	75	62	13	40,615	3,385
100	17	117	62	55	9,659	805
100	2	102	62	40	13,311	1,109
100	0	100	62	38	13,895	1,158

**Breakeven Analysis (at Block coordinator level)**

Seva Shulk collected	Membership fees	Total Revenue	Total Variable Costs	Contribution per member	Breakeven number of members	Breakeven number of SHGs
50	17	67	62	5	66,857	5,571
50	2	52	62	-10	-	-
50	0	50	62	-12	-	-
75	17	92	62	30	10,517	876
75	2	77	62	15	21,273	1,773
75	0	75	62	13	24,000	2,000
100	17	117	62	55	5,707	476
100	2	102	62	40	7,866	655
100	0	100	62	38	8,211	684

**Breakeven Analysis (at supervisor level)**

Seva Shulk collected	Membership fees	Total Revenue	Total Variable Costs	Contribution per member	Breakeven number of members	Breakeven number of SHGs
50	17	67	62	5	20,571	1,714
50	2	52	62	-10	-	-
50	0	50	62	-12	-	-
75	17	92	62	30	3,236	270
75	2	77	62	15	6,545	545
75	0	75	62	13	7,385	615
100	17	117	62	55	1,756	146
100	2	102	62	40	2,420	202
100	0	100	62	38	2,526	211

### Sustainability Analysis at different salary levels (of GW's)

Service Charge paid by one member	50	50	50	50	50	50	50	50
Number of members with one GW	300	300	300	300	300	300	300	300
Service Charge collected by one GW	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>
Salary per month of one GW (includig FTA)	650	700	750	800	850	900	950	1,000
Salary per annum of one GW (including FTA)	7,800	8,400	9,000	9,600	10,200	10,800	11,400	12,000
Service Charge remaining	7,200	6,600	6,000	5,400	4,800	4,200	3,600	3,000
Number of GW with one Project Supervisor	5	5	5	5	5	5	5	5
Service Charge left over per Project Supervisor	36,000	33,000	30,000	27,000	24,000	21,000	18,000	15,000
Salary of one Project Supervisor (annual incdgd FTA)	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000
Service Charge remaining	-6,000	-9,000	-12,000	-15,000	-18,000	-21,000	-24,000	-27,000
Number of Project Supervisor with one Block coordinator	3	3	3	3	3	3	3	3
Service Charge remaining per Block Coordinator	-18,000	-27,000	-36,000	-45,000	-54,000	-63,000	-72,000	-81,000
Salary of one Block Coordinator (annual incdgd FTA)	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000
Salary of Coumpter Operator	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000
Service Charge remaining	114,000	123,000	132,000	141,000	150,000	159,000	168,000	177,000
Number of Block Coordinators per Programme Coo	3	3	3	3	3	3	3	3
Service charge per PC remaining	342,000	369,000	396,000	423,000	450,000	477,000	504,000	531,000
Salary of PC per annum	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Service charge remaining at the end	462,000	489,000	516,000	543,000	570,000	597,000	624,000	651,000

Service Charge paid by one member	75	75	75	75	75	75	75	75
Number of members with one GW	300	300	300	300	300	300	300	300
Service Charge collected by one GW	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>
Salary per month of one GW (includig FTA)	650	700	750	800	850	900	950	1,000
Salary per annum of one GW (including FTA)	7,800	8,400	9,000	9,600	10,200	10,800	11,400	12,000
Service Charge remaining	14,700	14,100	13,500	12,900	12,300	11,700	11,100	10,500
Number of GW with one Project Supervisor	5	5	5	5	5	5	5	5
Service Charge left over per Project Supervisor	73,500	70,500	67,500	64,500	61,500	58,500	55,500	52,500
Salary of one Project Supervisor (annual incdgd FTA)	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000

## ANNEXURE - IV

Service Charge remaining	31,500	28,500	25,500	22,500	19,500	16,500	13,500	10,500
Number of Project Supervisor with one Block coordinator	3	3	3	3	3	3	3	3
Service Charge remaining per Block Coordinator	94,500	85,500	76,500	67,500	58,500	49,500	40,500	31,500
Salary of one Block Coordinator (annual incdg FTA)	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000
Salary of Coumpter Operator	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000
Service Charge remaining	-1,500	-10,500	-19,500	-28,500	-37,500	-46,500	-55,500	-64,500
Number of Block Coordinators per Programme Coo	3	3	3	3	3	3	3	3
Service charge per PC remaining	-4,500	-31,500	-58,500	-85,500	112,500	139,500	166,500	193,500
Salary of PC per annum	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Service charge remaining at the end	124,500	151,500	178,500	205,500	232,500	259,500	286,500	313,500

Service Charge paid by one member	100	100	100	100	100	100	100	100
Number of members with one GW	300	300	300	300	300	300	300	300
Service Charge collected by one GW	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>
Salary per month of one GW (includig FTA)	650	700	750	800	850	900	950	1,000
Salary per annum of one GW (including FTA)	7,800	8,400	9,000	9,600	10,200	10,800	11,400	12,000
Service Charge remaining	22,200	21,600	21,000	20,400	19,800	19,200	18,600	18,000
Number of GW with one Project Supervisor	5	5	5	5	5	5	5	5
Service Charge left over per Project Supervisor	111,000	108,000	105,000	102,000	99,000	96,000	93,000	90,000
Salary of one Project Supervisor (annual incdg FTA)	42,000	42,000	42,000	42,000	42,000	42,000	42,000	42,000
Service Charge remaining	69,000	66,000	63,000	60,000	57,000	54,000	51,000	48,000
Number of Project Supervisor with one Block coordinator	3	3	3	3	3	3	3	3
Service Charge remaining per Block Coordinator	207,000	198,000	189,000	180,000	171,000	162,000	153,000	144,000
Salary of one Block Coordinator (annual incdg FTA)	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000
Salary of Coumpter Operator	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000
Service Charge remaining	111,000	102,000	93,000	84,000	75,000	66,000	57,000	48,000
Number of Block Coordinators per Programme Coo	3	3	3	3	3	3	3	3
Service charge per PC remaining	333,000	306,000	279,000	252,000	225,000	198,000	171,000	144,000
Salary of PC per annum	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Service charge remaining at the end	213,000	186,000	159,000	132,000	105,000	78,000	51,000	24,000

**Internal Rate of Return (if converted to MFI in present organizational form)**

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Number of SHGs	432	832	1,132	1,232	1,332	1,382	1,432	1,482
Number of Members	5,184	9,984	13,584	14,784	15,984	16,584	17,184	17,784
Reserve fund from the SHGs	153,233	331,274	651,323	1,193,812	1,942,983	2,892,165	4,038,551	5,150,886
Savings of the SHGs	2,627,206	7,144,470	13,574,182	24,443,966	37,534,248	54,742,372	74,881,823	93,157,438
Loans given to the SHGs	3,778,043	8,068,141	17,010,763	30,398,332	51,106,896	77,142,343	109,285,246	142,236,475
Interest received from the SHGs	528,926	1,129,540	2,381,507	4,255,767	7,154,965	10,799,928	15,299,934	19,913,107
Interest paid on the savings and Reserve fund	94,158	202,059	391,519	719,638	1,158,240	1,717,411	2,387,656	3,029,041
External loans required	3,778,043	9,218,977	19,085,270	35,909,421	62,572,351	102,180,446	156,723,320	224,077,972
Interest paid on the external loans	264,463	645,328	1,335,969	2,513,659	4,380,065	7,152,631	10,970,632	15,685,458
Total Interest received	528,926	1,129,540	2,381,507	4,255,767	7,154,965	10,799,928	15,299,934	19,913,107
Total Interest paid	358,621	847,387	1,727,488	3,233,298	5,538,305	8,870,042	13,358,288	18,714,499
Seva shulk received	265,800	404,400	728,400	1,058,400	1,328,400	1,508,400	1,598,400	1,673,400
Membership fees received	39,220	26,740	89,040	76,940	42,740	44,740	36,690	37,690
Federation meeting expenses	12,000	12,720	13,483	14,292	15,150	16,059	17,022	18,044
Federation office expenses	36,000	38,160	40,450	42,877	45,449	48,176	51,067	54,131
Salaries								
Group Worker	176,256	339,456	461,856	502,656	543,456	563,856	584,256	604,656
Project Supervisor	294,000	311,640	330,338	350,159	371,168	393,438	417,045	442,067
Block Coordinator	216,000	228,960	242,698	257,259	272,695	289,057	306,400	324,784
Computer Operator	48,000	50,880	53,933	57,169	60,599	64,235	68,089	72,174
MIS in charge	96,000	101,760	107,866	114,338	121,198	128,470	136,178	144,349
Programme Coordinator	120,000	127,200	134,832	142,922	151,497	160,587	170,222	180,436
Total	950,256	1,159,896	1,331,522	1,424,502	1,520,613	1,599,643	1,682,190	1,768,466
Bad Debts (5%)	188,902	200,236	212,250	224,985	238,485	252,794	267,961	284,039
Profit/Loss	-711,833	-697,720	-126,247	451,152	1,168,104	1,566,355	1,558,496	785,018

### Assumption about number of SHGs year wise

	new	1 yr old	2 yr old	3 yr old	4 yr old	5 yr old	6 yr old	7 yr old	Total
Year 0	100	180	82	40	30	0	0	0	432
Year 1	400	100	180	82	40	30	0	0	832
Year 2	300	400	100	180	82	40	30	0	1132
Year 3	100	300	400	100	180	82	40	30	1232
Year 4	100	100	300	400	100	180	82	70	1332
Year 5	50	100	100	300	400	100	180	152	1382
Year 6	50	50	100	100	300	400	100	332	1432
Year 7	50	50	50	100	100	300	400	432	1482
Year 8	50	50	50	50	100	100	300	832	1532

### Interest Rate vs. IRR

Interest Rate	IRR
12%	-35%
13%	0.6%
14%	22%

**Loan amount at different saving amount and  
different Bank linkage periods**

Savings amount per month per member	<b>30</b>	<b>40</b>	<b>50</b>	<b>60</b>	<b>75</b>	<b>100</b>
Members per SHG	12	12	12	12	12	12
Savings per month	360	480	600	720	900	1,200
Savings in 6 months	2,160	2,880	3,600	4,320	5,400	7,200
Loan amount	4,320	5,760	7,200	8,640	10,800	14,400
Loan amount per member	<b>360</b>	<b>480</b>	<b>600</b>	<b>720</b>	<b>900</b>	<b>1,200</b>
Savings in 9 months	3,240	4,320	5,400	6,480	8,100	10,800
Loan amount	6,480	8,640	10,800	12,960	16,200	21,600
Loan amount per member	<b>540</b>	<b>720</b>	<b>900</b>	<b>1,080</b>	<b>1,350</b>	<b>1,800</b>
Savings in 12 months	4,320	5,760	7,200	8,640	10,800	14,400
Loan amount	8,640	11,520	14,400	17,280	21,600	28,800
Loan amount per member	<b>720</b>	<b>960</b>	<b>1,200</b>	<b>1,440</b>	<b>1,800</b>	<b>2,400</b>