

# Annual Report

April 2009 to March 2010



**S a - D h a n**

The Association of  
Community Development  
Finance Institutions

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## 1. Background

In the times of the global meltdown, together through the government led SHG-bank linkage programme and the MFIs; the agenda of “financial inclusion” was pursued unhindered. As on 31st March 2009, Indian microfinance including MFIs’s actual data and estimated data for the NABARD SHG bank linkage programme reached to 862 lakh clients with a portfolio outstanding of Rs. 35, 100 crore. Within that the MFIs alone reached 226 lakh clients with outstanding portfolio of Rs. 11,700 crore.

The RBI and the government have made efforts to increase banks’ penetration into the poor community through various initiatives. Some of these measures include the creation of State Bank of India in 1955; nationalization of commercial banks in 1969 and 1980; initiating the Lead Bank Scheme in 1970; establishing Regional Rural Banks (RRBs) in 1975; introducing a Self-Help Group (SHG)-Bank Linkage Programme in 1992 and formulating the Kisan Credit Card in 2001. Further in November 2005, banks were advised by the RBI to make available a basic banking ‘no frills’ account with low or nil minimum stipulated balances as well as charges to expand the outreach of such accounts to vast sections of the population. Further, Know Your Customer (KYC) norms were simplified to ease the process of opening bank accounts. More recently, in January 2006, banks were permitted to utilize the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models.

In terms of some of the recent efforts by the government, in the budget announcements 2010-11, the corpus of Microfinance Development and Equity Fund (MFDEF) was doubled to Rs. 400 crore. It was also announced that the Business Correspondent model with appropriate technology back up will be provided to the people who have no access to banking, especially in villages with a population of more than 2,000 by 2012. Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund set up in 2007-08 by NABARD to reach banking services to the unbanked areas have also received support in the budget with an increase of Rs.100 crore for each of these funds; to be contributed by the government, RBI and NABARD. Rural Development got an infusion of Rs.66, 100 crore while the four-year-old Mahatma Gandhi National Rural Employment Guarantee Scheme (formerly known as NREGA) received Rs.40, 100 crore in 2010-11. NREGA beneficiaries will also be covered under the Rashtriya Swasthya Bima Yojana (insurance cover package) that was given to provide health insurance cover to below poverty line workers and their families. All Mahatma Gandhi NREGA beneficiaries who had worked for more than 15 days during the preceding financial year will come under the scope of this insurance cover. The Aadhaar [formerly Unique Identification Development Authority of India (UIDAI)] is going forward primarily focusing on facilitating government programmes for the poor and expansion of banking services.

Despite all these efforts; within the poverty debate in India, the estimation of percentage of people living below the poverty line by the Tendulkar committee is quite disturbing and alarming. The report has estimated the percentage of people below the poverty line as high as 38% which is higher than the figure of 27.5% in 2004-05 and even 36% in 1993-94.

Apart from the effort of the government through various programmes/ schemes, the other channel for delivery of microfinance services in India is led by the Non Banking Finance Companies (NBFCs) that constitutes a large part of the loan outstanding as well as the outreach. Though drastically less in number as compared to the not for profit institutions, many of the NBFCs are operating in multiple states, some of them in close to 20 states in the country. In recent times, they have come under severe attack from media,

state government, academicians, researchers etc. who were quite critical for charging high interest rates from poor clients, loan recovery practices, accumulation of profits, compromising social agenda in pursuit of growth and return to investors and contribution to the over-indebtedness of clients etc.

In addition, MFIs in general and NBFCs in particular are operating in an environment where there is a constant threat of application of Money Lenders/ Usurious Loan Act in states. Some of the states have already witnessed this in past. The NBFCs engaged in microfinance are striving for a separate category of MFI-NBFCs with the RBI, inclusion under the provision for Business correspondent, service tax exemption, opening of ECB route for resource mobilization etc. apart from the implications of recent guidelines of RBI on assets securitization by NBFCs There is perceptible threat in terms of redefining priority sector lending norms vis-à-vis the organizations that are included in the provisions.

In past 5-6 years, inability of the not for profit entities in the microfinance to raise debt as well as equity, that arises as a limitation of their legal form as they explore opportunities to meet the credit needs of their poor clients, has forced them to transform into for profit NBFC . The issue of sustainability and scale in the existing not profit legal structure continue to confront these entities. Despite the trend of conversion of MFIs into for-profit legal structure, the microfinance landscape in India is still dominated by the NGO-MFIs in terms of numbers. Most of these are small and medium tier MFIs. In addition to the issues like, lack of supportive/enabling policy environment, inadequate fund flow, inadequate management capacities, poor governance etc. that is being faced by this segment for long, they also grappled with issues like, possibility of harassment by State Government under Money Lenders/ Usurious Loan Act, likelihood of decline of credit flow from bank given the possibility of withdrawal of lending to MFIs under Priority Sector Lending etc. that have emerged recently.

SHG institutions have emerged as principal tools for poverty eradication, women empowerment and social change. The program emerged as one of the world's largest social mobilization and community based microfinance programs. By March 2009, over 6.12 million SHGs had saving accounts in the banks and of these over 5.76 million SHG got loans worth Rs.391.44 billion from banks. As on 31 March 2009, over 4.22 million SHGs had a loan outstanding amount of Rs.226.8 billion. Over 100,000 SHG federations emerged and provided many valuable services like sustenance of SHGs after withdrawal of promoting agencies, promoting new SHGs cost effectively, promoting and managing the quality in SHGs, acting as an interface between SHGs and mainstream institutions.

However, SHG institutions are facing a number of challenges. These include low awareness levels on the part of many primary and secondary stakeholders, varied quality SHGs and federations across the country and heavy dependence on promoting agencies and their staff for day to day functioning.

The year 2009-10 has been a watershed year for Sa-Dhan in many ways. The strategic review of Sa-Dhan helped us in envisaging the future trends in terms of opportunities as well as challenges in the present context of the sector. The report clearly articulated some of the key issues that Sa-Dhan needs to attend. Prominent among these were the follow up on the microfinance bill, resource flow, expanding the horizon of engagement to parliamentarians, Standing Committee (s), reputation management of the sector through implementation of the code, consumer protection, enhancing transparency through improved reporting and analysis, social performance reporting, media engagement, capacity building of smaller and medium level MFIs through implementation support such as toolkits, manuals, training etc, facilitation of common good infrastructure like creation of quality HR and Credit Guarantee Fund, attending to state level issues etc.

Emanating from the growth in the sector, MFIs in growth states are in constant threat of State Moneylenders' Act could get imposed on them, which would put a cap on their interest rate, and therefore could lead to their operations becoming un-viable. Another critical issue arising of the growth is the threat of delisting from the organizations that banks can lend to as part of their priority sector lending targets. Delisting would mean that it is directly going to affect the fund flow to the sector from the local banks.

In the reporting period, within the context of challenges of legal form/ operating models as well as sectoral issues, Sa-Dhan has made substantial efforts towards responding to these for expansion of provision of microfinance services for the poor household in India.

## **2. Sa-Dhan Review 2009: Rejuvenating Sa-Dhan**

After the completion of ten years of the Association, Sa-Dhan undertook a Strategic Review Exercise that included interaction with external stakeholders such as the policy makers, government, banks, donors etc. and internally with the diverse membership of Sa-Dhan across states and regions. Within the membership, there has been a close interaction of the board and the Secretariat with the NBFC members of Sa-Dhan. Together, these two processes have helped in defining the contours of the “Work” and “Working” of Sa-Dhan for the coming few years.

In this direction, following from the board retreat, the recommendations of the review report and subsequent deliberations within the board, on identifying the challenges as well as the organizational structure, Sa-Dhan has begun the implementation process.

As part of the implementation process, in terms of “Working” with the membership three Task Forces were created viz. Task Force on For Profit, Task Force on Not for Profit and Task Force on SHGs of members to articulate the issues and challenges arising from the legal form and operating models. Through the meetings of these Task Forces, Sa-Dhan has been able to firstly, identify the critical issues and bottlenecks within the specific legal form/ operating model towards expansion of microfinance services, secondly, prioritization of issues to be dealt with through a participatory diagnostic process. The prioritized agenda from these deliberations led to detailing out of the work arising from it.

Simultaneously, in order to respond to the issues and challenges of the sector, Sa-Dhan underwent a process of re-organization internally that led to articulation of the “Work” into five thematic pillars viz. Sector Representation and Policy Advocacy, Member Affairs and Standards, Self Regulation and Standards, and Communications. A team was developed corresponding to each thematic pillar, and within each team necessary experience and skills sets were provided. In the process, we have also brought new people with new skills to the staff, focusing on the “Work” under each thematic pillar.

## **3. Our Response to the New Challenges: Programmatic Interventions**

While the strategic review report helped us in enhancing our understanding on the issues and challenges within the sector, the new “Working” structure of Task Forces facilitated the prioritization of issues that need attention from the Sa-Dhan Secretariat during the year.

Taking forward some of the prioritized recommendations of the Task Force on For Profit and Not for Profit, we had some very important and crucial meetings at the RBI, NABARD, Ministry of Rural Development which has turned both into challenges as well as opportunity for the microfinance sector. Through our new design we have been able to take forward issues of the various legal forms and operating

models within the membership. We also plan to take up key research to address the concerns raised by regulators, policy makers and government from time to time with us.

During this period, following from the recommendations of the board to establish an alliance with industry associations from the other sector, we engaged with what we believe has been a fruitful collaboration with FICCI for our National Microfinance Conference, that created space for Sa-Dhan and the microfinance sector vis-à-vis association from other sectors. Substantial engagement with parliamentarians resulted in some of the participation from this constituency in our National Microfinance Conference.

As part of our strategy to refine existing models of microfinance, the Secretariat substantially engaged with the RBI and Ministry of Finance on the issues arising from the existing provisions under the Business Correspondent Model and its implementation. The RBI incorporated some of the recommendations.

More importantly, the work on self regulatory framework has begun and we have been able to engage both with the experts as well as the diversity among the membership on the subject. Amidst the growth in the sector, we have given priority to the work on implementation of the code of conduct. Contributing to this work was our sensitization and education process within the MFIs, banks, investors on “Social performance and efforts on opening of State chapters of Sa-Dhan to facilitate closer interaction with the local stakeholders. We have continued with our work on building transparency within the sector through the Bharat Microfinance Report – Side-by-Side apart from flagging critical issues that the sector is facing through them.

SHG work has been given a new impetus in terms of strategy as well as the engagement itself, dovetailing efforts with the ministries, bank training institutes, SHG practitioners and the parliamentarians.

The sector building strategy included providing perspective of some of the credit plus approaches like livelihoods, micro-insurance to addressing the new requirement of growing organization in terms of perspective on transformation. Skill building initiatives included covering issues such as ‘risk management’ and “governance. Various standard manuals on HR, Microfinance were produced for the MFIs.

Towards creating a common good infrastructure for the sector, initial work on the “Credit Guarantee Fund” and its recommendation to the RBI and Ministry of Finance has been pursued, apart from dissemination the “Diploma in microfinance” in collaboration with IIBF, engagement with universities on curriculum on “microfinance” towards facilitating entry of quality HR in the sector.

The following pages provide a brief of some of the key initiatives taken up by Sa-Dhan during the year.

### **3.1. Summary of Sa-Dhan Interventions**

#### ***Sector Representation and Policy Advocacy***

*While the restructuring within Sa-Dhan helped in articulating the issues of the diversity more clearly, our engagement with the RBI, Ministry of Finance, parliamentarians, and ministries helped in two ways. Firstly, these engagements helped in articulated the issues of the sector before these key stakeholders and seek incremental changes in policy development. Specifically, in our engagement with the RBI and Ministry of Finance, we have been able to facilitate changes in the provisions under the draft mf Bill as well as the business correspondent model. Business Correspondent model is the only existing microfinance model that facilitates savings services apart from other services for the poor. Secondly, it provided the space to understand the concerns of RBI and Ministry of Finance, for initiating corrective measures within the sector. Our intensive*

*engagement also resulted in participation of key people from the RBI, Ministry of Finance, parliamentarians in the national microfinance conference*

*On the common infrastructure for the sector, the RBI has welcomed the idea of a “Credit Guarantee Fund”. Many policy constraints arise because there is little dialogue between the different participants. Therefore, facilitating that has been an important initiative of Sa-Dhan*

*In face of reputational risks and constraints to encourage the ability to talk and identify the risks that the sector faces, our work has primarily been directed to diminish priority sector threats for the sector. This was done through disseminating information on the industry and client practices, engagement with the members from time to time in terms of warning and corrective actions and constantly engaging with the agencies such as RBI to diminish these.*

### **Reputation Management of the Sector**

*During the year, few internal developments as well as some of the developments in the external environment led the Association to expedite its work on the reputation management of the sector with a new strategy. The internal developments were in the form of Kolar issue as well as beginning of what appeared to be turning into a situation of state interference in microfinance operations in Andhra Pradesh. During both the situations, practice of some of the MFIs was under the scanner. Apart from the above, serious concerns were expressed in Sa-Dhan’s meeting with the RBI on MFIs’ practice, specifically in relation to lack of transparency, consumer protection etc. Further, an RBI Committee has been constituted to review the priority sector guidelines that could potentially have detrimental effect on the resource flow to the sector by the banks.*

*In this context, efforts were made to refine the existing code of conduct and initiate the process of implementation of the same. Efforts in terms of action steps being taken by the Association were communicated to the RBI.*

*Along with the implementation process of code of conduct, sensitization and education workshops with investors, banks and practitioners were conducted to apprise them on the critical need of consideration of “Social performance” apart from financial performance of MFIs.*

*Efforts to enhance transparency are on as every year the report captures data of more MFIs in comparison to the previous year. Chapters on “Social performance” are included in the reports to bring increased focus and attention on the issue.*

*A nationwide study to capture the effect of MFI intervention in 14 states covering 35,000 households is being supported to showcase the difference the interventions of MFIs has made to the lives of the poor before the policy makers, regulators and government. Also, field visits were made to take stock of the situation on the ground with regard to multiple borrowing.*

*Workshops/ Training programme on risk management and governance were conducted to provide perspective and skills to MFIs.*

*Towards preparedness to deal with Kolar/ Andhra Pradesh kinds of situation, five state chapters were planned in growth states to liaison with the local stakeholders as well as facilitate information dissemination on the activities of the MFIs to the local administration. Three of these state chapters are already in the process of formation. To attend to issues at the state level; the strategy of State chapters in growth states is a forward step on reputation building of the sector.*

*We hope that a multi-pronged strategy on reputation management of the sector will reduce political as well as operational risk for the sector.*

### **Strengthening the SHG Movement**

*We have derived conclusions for our intervention on SHGs from the NABARD report and the SHG data that was collected by us over the years. Through the membership process in the form of “Task Force on SHGs” the identified issues have been related to resource flow, declining bank branches in rural areas, rising NPAs in some of the states and support to SHPIs. Therefore, our intervention on rebuilding the SHGs has been directed by three broad levels of issues: need for working on building linkages for technical support for the sector, resource flow, knowledge and programme efficiency.*

*To engage with the issues of the largest microfinance programme in the world, there was need to engage at different level within the government as well as the practitioners. Our intervention framework, included engaging at the highest level with parliamentarians and the specifically the ministry of rural development on the issues concerning them such as resource flow to SHGs, declining bank branches and increasing SHG numbers, unlocking funds within the government system etc. Another aspect of our intervention has been in the form of facilitating banks as the drivers of the resource flow to SHGs, re-orientation of their officers to microfinance etc. In this context, the breakthrough with BIRD has been a critical outcome in terms of providing inputs on their training to bank officials on microfinance. It was also important to engage with the practitioners through workshop on collectively identifying and highlighting operational issues related to SHG/ Federations. Emphasis on the SHG data and highlighting related issues has been a distinct aspect of our Bharat Microfinance Report.*

### **Sector Building Initiatives**

*Apart from engaging on policy and reputation building issues, as an Association we have engaged on a range of sector building initiatives in the present context of the sector.*

*The recommendations of the strategic review exercise have helped us to sharpen our initiatives, and we have been able to find new solutions to the old problems that the sector was facing. Arising from this new structure, we have enhanced our emphasis on knowledge building for the sector.*

*These engagement range from meetings with the bankers’ training institute to facilitate appropriate perspective within the bank officials involved in microfinance, information sharing on different scheme of banks, organizing training programmes to facilitate appropriate perspective to deal with issues related to the trend in the sector such as on “MFI transformation”, micro-insurance, livelihoods, social performance etc.*

*In order to prepare work force for the sector we have engaged with different players such as academic institutions, universities, training institutes etc. In the context of the growth in the sector and towards an appropriate HR that looks critically at the incentives to the staff of the MFIs, we developed an HR manual and a Standard Manual of microfinance for uniform understanding on the subject. These initiatives are directed at diminishing risk of client behavior.*

*The “Diploma on Microfinance” continues to be an important initiative towards bringing quality HR to the sector. Educating on Social performance has been one of the key initiatives.*

*While the engagement has been wide spread, the key is the approach that Sa-Dhan has undertaken to deal with these critical sector building issues. The engagement with the practitioners involved interaction at more than one front viz. ranging from development of manuals to educating/ providing perspective through a workshop. The emphasis on HR has resulted in producing quality HR of around 10,000 in number in a year.*

*As a result of these initiatives, 120 not for profit agencies (with a loan outstanding of Rs. 4500 crore) with six million clients are directly affected by the above products.*

## **4. Sa-Dhan Interventions**

### ***4.1. Sector Representation and Policy Advocacy***

#### **4.1.1. Follow up on the Legislation of Microfinance Bill**

##### **4.1.1.1. Meeting with Ministry of Finance**

In terms of the follow up on the microfinance Bill, Sa-Dhan team met the Joint Secretary and the Director at the Ministry of Finance on 5th June 2009. It was shared with the ministry officials that more and more MFIs are transforming into companies after reaching a certain scale. In this context, concerns were expressed on the inclusive nature of the provisions of the microfinance bill vis-à-vis the intent to expand the provision of financial services to the poor. Alternatively, it was also proposed that in case the NBFCs are kept outside the purview of the bill, then there should be necessary changes in the banking Act to facilitate the operations of the NBFCs. The ministry officials expressed openness to the ideas Sa-Dhan might send them in terms of the suggestions on the draft.

##### **4.1.1.2. Meeting with Secretary, Department of Financial Services, Ministry of Finance**

Sa-Dhan Team met the Secretary, Department of Financial Services, Ministry of Finance to submit the sectoral recommendations on the microfinance Bill. It was suggested that 'microfinance' needs to be properly defined in the Bill to include all legal forms. It was stated that the microfinance Bill 2007 excluded the NBFCs and the Section 25 companies from its ambit, leaving behind almost 70-80% of the microfinance clients outside its purview. This would exclude the most eligible entities from providing thrift services to the borrowers. Concern over the existing definition of charitable activities and thereby the tax status of microfinance was brought to the notice of the Secretary. It was shared that the tax liability of the MFI would ultimately increase the cost of borrowing for the poor

Further, it was discussed that the buying out of the portfolio of the MFIs by the commercial bankers might lead to problems of huge service tax burden for the MFIs in the time to come and can also cause a high default rate in the loan repayment.

##### **4.1.1.3. Consultative Meeting of the Stakeholders at Ministry of Finance**

A consultation meeting on the Micro-Finance Bill with the Ministry of Finance was held to seek suggestions/views of the stakeholders on certain aspects of the draft Bill. As there were divergent opinions on the present form of the draft Bill, the Ministry of Finance finally decided to refine the draft Bill after getting feedback from the sector. They shared the contents of the working draft Bill and asked the participants to submit their suggestions/feedback.

The draft Bill was sent to all our members for their inputs and recommendations. A document incorporating all the relevant suggestions and the recommended changes as obtained from our members was subsequently submitted to the Ministry of Finance. Further a comprehensive Bill initially drafted in 2005 by Sa-Dhan through extensive consultations with the microfinance practitioners and other important stakeholders was re-submitted to the Department of Financial Services.

After the receipt of various feedbacks, the MoF and NABARD incorporated the feasible suggestions into the draft and an internal discussion was held among NABARD, RBI and MoF on the revised draft on April 23, 2010. Sa-Dhan was invited as special invitee for this discussion and they took note of Sa-Dhan's feedback on the Bill.

With respect to the definition of micro finance services, there was a detailed discussion and it was decided to examine the definition of financial services to include all the financial services required by the poor. In respect of financial assistance to eligible clients under 2(i) A, B & C, it was decided to remove the ceiling (Rs50000/ or Rs.150000/ etc) and rewrite the amount as specified from time to time. The definition of thrift was revised as 'thrift', meaning any money collected not withdrawal by cheque (the words 'other than in the form of current account or demand deposit by a group' were removed) . In respect of the discussion on Net Owned Fund under chapter III 10(1) c, there was a suggestion to increase the net owned fund and then finally it was suggested to Sa-Dhan to share the data on net owned fund of MFIs. Based on the existing net owned fund and Task force recommendation on Net Owned Fund, final decision can be arrived.

On Sa-Dhan's suggestion to include equity under 2 (d), it was discussed to examine the inclusion of equity to facilitate the operation through the mutual benefit trust mechanism. The recommendation on inclusion of Section 25 companies under the purview of the bill was considered for examination. In respect of the discussion on Net Owned Fund under chapter III 10(1) c, there was a suggestion to increase the net owned fund and then finally it was suggested to Sa-Dhan to share the data on net owned fund of MFIs. Based on the existing net owned fund and Task force recommendation on Net Owned Fund, final decision can be arrived.

It was agreed to bring all funds under MFDF and to include MFDC to provide broad operational guidelines to operate MFDEF . Regarding Sa-Dhan's suggestion of excluding State Money Lenders (Chapter IX 36), it was clarified that the Act is not regulating lending but it regulates thrift. Further, to examine this issue, Ministry of Finance needs time and it cannot incorporate at this moment.

#### ***4.1.2. Meeting with Dy. Governor, RBI***

A delegation of Sa-Dhan constituting of the Secretariat and some of the senior members of Sa-Dhan met the new Deputy Governor to update him on the sector and its prevalent issues. During the meeting, the delegation highlighted some of the key issues that the sector is confronting with viz. the need for a separate category of microfinance NBFC, opening up of ECB, changes required in the Business correspondent model, representation of the microfinance sector in the SLBC/DCC meetings etc. In addition, the issue of non repayment of the MF loans in Karnataka was also brought to his attention.

The delegation also met the CGM of RPCD and CGM-DNBS separately to brief them on the Karnataka situation and other issue mentioned above.

#### ***4.1.3. Meeting with NABARD: Enhancing Resource flow***

A delegation from Sa-Dhan comprising of the Secretariat and few members met the Managing Director, NABARD, on 3rd July 2009.

The meeting focused on enhancing resource flow to the sector through the Rs. 500 crore each Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) dedicated for meeting the cost of developmental and promotional interventions and technology adoption respectively.

Following the meeting a note containing clause by clause analysis of the microfinance Bill was sent to NABARD

#### **4.1.4. Facilitating Improvement in Practice of Microfinance Models**

##### **4.1.4.1. Meeting with RBI “Working Group” on Business Correspondent Model**

In order to put forth issues related to the Business Correspondent Model, a delegation from Sa-Dhan met the “Working Group” within RBI working on the “Business Correspondent Model”. Through the documents sourced by Sa-Dhan members Swadhaar, ACCESS, IDF and BASIX a sectoral note highlighting the issues within the model was shared with the “Working Group”. All the contributing members were part of the delegation to the “Working Group”. Further, a note was developed and circulated among members.

Some of the key recommendations of the report are:

- The fact that the process of financial inclusion involves the three critical aspects of (a) access to banking markets, (b) access to credit markets and (c) financial education. The BC model should, therefore, encompass each of the above three aspects in order to be able to address the issue of financial inclusion in a holistic manner. The full scope of the model can be realized not just by opening no-frills accounts but by synthesizing the above three aspects as integral components of the model. Towards this end, there should be proper understanding and appreciation of the BC model by all stakeholders, in particular, by banks.
- Banks may need to have a relook at the compensation structure for BCs.
- The range of services to be delivered through the BC should be ramped up to include suitable small savings, micro-credit, micro-insurance, small value remittances etc.
- Banks may bear the initial set up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs.
- In order to improve the viability of the BC model, banks may consider providing reasonable temporary overdrafts to the BCs free of interest charges

##### **4.1.4.2. Highlighting Requirements of Operating models: Field Visit of Finance Ministry in Orissa and Andhra Pradesh**

In order to understand the ground level operations in the microfinance sector, Ministry of Finance sought facilitation from Sa-Dhan. In this regard, a visit to Sa-Dhan members in Orissa and Andhra Pradesh was facilitated by Sa-Dhan.

The Finance Ministry officials undertook the field visit to Sa-Dhan members Adhikar and SMCS in Orissa and SKS in Andhra Pradesh. As a part of the preparation for this meeting, profile of the organizations and note on their particular field operation was sought from the respective organizations, before it was briefed to the Ministry officials.

In their visit to Orissa on 21st August 2009, the Ministry officials visited the retail micro financing models, systems, processes, record keeping and MIS of the MFIs etc. They also saw the remittance program, the self help cooperative model of Orissa and SHG federation’s activities

In Andhra Pradesh, visits had been planned to Sa-Dhan members viz. Spandana, Roshan Vikash, Dove and trident Microfinance. The team visited a PACS near Hyderabad, before the visit was called off because of the sudden demise of Chief Minister of Andhra Pradesh.

#### ***4.1.5. Pre-Budget Consultation Meeting***

Continuous engagement with the office of Finance Ministry yielded invitation to Sa-Dhan for the first time for the pre-budget consultation meeting with the MoF. After incorporating the relevant suggestions from the members, Sa-Dhan's team developed a pre-budget consultation note & submitted to the Ministry. The recommendations in the consultation meeting mainly focused on issues such as re-introduction of the microfinance sector Bill in the forthcoming budget session, recognizing microfinance as a legitimate activity and encouraging banks to lend to small and startup institutions in the underserved regions, loan and equity support to NGO/ MFIs in underserved regions to the tune of Rs. 200 Cr earmarked from the MFDEF etc. It was also recommended that microfinance to be considered as priority sector lending, accordingly the interest rate charged by the banks for onlending should be determined. To provide liquidity support to the MFIs, refinance from NABARD can be provided for onlending to SHGs as has been provided to banks and the RRBs.

On the MF –NBFC it was recommended that NBFCs engaged in financial inclusion should be categorized as a separate category of NBFCs, should be allowed to provide small savings, micro-insurance and micro-remittance under the Business Correspondent Model. In this direction, the government may recommend and advise the RBI to re-examine the issue. Also the MF-NBFC may be allowed to raise ECBs through the automated route.

Other recommendations were related to service tax of 10.3% on microfinance loans on less than Rs. 25,000 and micro-insurance products (insure less than Rs. 25,000) be waived off from poor customers. Ministry of Finance may advise the state governments to waive the Stamp Duty on loans given by MFIs to SHGs, JLGs and individuals. It was also recommended on creation of a Credit Guarantee Fund for risk mitigation of bank's lending to MFIs as well as lowering of cost of borrowing for the MFIs and in turn to the borrowers.

Creation of a Credit Information Bureau, setting up of a dedicated fund for promotion, nurturing and capacity building of SHGs and federations with a Special Purpose Vehicle, and a dedicated portion of Rs. 250 Cr from the Financial Inclusion Fund should be earmarked for financial literacy and should be channelized through the NGOs and MFIs. These were some of the other recommendations.

#### ***4.1.6. Regulatory Constraints and Resource Flow for NBFCs, Not for Profit and SHGs: Engagement with RBI***

To articulate and present the issues of the NBFC members of Sa-Dhan, a meeting was sought with Deputy Governors of RBI (Dr. K C Chakrabarty (RPCD), Smt. Usha Thorat (DBOD) and Smt. Shyamala Gopinath (DNBS) separately at RBI, Mumbai on 25th & 26th November 2009. with A memorandum was developed by the secretariat after compiling all the suggestions received from the NBFC members of the association before the meeting.

Sa-Dhan delegation comprising of the Sa-Dhan Secretariat and members made a representation before the governors.

The following issues were included in the Memorandum:

- Need for a separate category of NBFC with lowered CAR and allowing ECB
- Exemption from State Moneylenders Act,
- Consider bank advance to NBFC-MFIs under priority sector lending
- Making NBFCs eligible under BC model
- Exemption from service tax and stamp duty etc

RBI has shared its concerns on the following:

- Lack of transparency and non disclosure of effective interest rate to the borrowers and practices followed by the organizations in delivering the financial services and recovering the outstanding portfolio
- Serious concerns with regard to the operations of some of the NBFCs.

The RBI was apprised of the following:

- *Debt and equity support to the sector especially for the small and emerging institutions and emphasized the need for increasing such support to the MFIs*
- *Need of saving services*
- *Specific to the SHG movement it was recommended to review the portfolio of banks vis-à-vis SHGs as well as to look at the issues of lack of resource flow to SHGs*

After discussion with the delegation, Deputy Governor assured to examine the issues in detail and take a considerate opinion by engaging with the sector closely. She was also open to support the setting up of a Credit Guarantee Fund for microfinance sector.

As the way forward to this, Sa-Dhan began consultations with members on different aspects of self regulation including code of conduct, social performance indicators, and transparency and governance norms with a definitive time line for their dissemination in public domain. We believe this work would serve the sector well in dealing with the current debate as well as in the long run.

#### **4.1.7. Monetary Policy 2010-11: Representing the Microfinance Sector at RBI**

With reference to the meeting held on 25th and 26th November 2009, Sa-Dhan thanked RBI for convening a joint meeting of the RPCD and DNBS. In response to the concerns expressed by the RBI during the meeting with the Deputy Governor's office on 25th & 26th November 2009, Sa-Dhan briefed about the action steps it has taken in relation to that as follows:

- Advised its membership on critical feedback of RBI about the operations and practices of microfinance institutions.
- Initiated an independent nationwide large sample study through a credible and independent research organization to understand the impact of microfinance services on the client's life.
- Initiated the monitoring of the implementation of Code of Conduct to improve the practice part of microfinance operations.
- In the process to set up a complaint redressal mechanism.

- The monitoring & reporting mechanism includes reporting on identified key indicators to track the practices in MFIs.
- A suitable incentive and disincentive mechanisms will be built into the system. These measures will strengthen the client protection system in the microfinance sector.

In terms of the recommendations, following points were made:

- Funding from banks to the MFIs at reasonable rate of interest (at 4% p.a.) without affecting the profitability of banks under the existing Differential Rate of Interest Scheme
- In line with the recommendation of the RBI Working Group on BC Model, it is also highly recommended by the sector that NBFC with a portfolio of not less than 80% in microfinance should be made eligible to act as BCs of the banks.
- The proposed NBFC-MFI classification would facilitate an operating environment that systemically encourages the unique needs of microfinance companies while ensuring that the poor have an ethical market-driven mechanism to escape poverty.
- It is suggested that the microfinance NBFCs be considered as a separate category of NBFCs as it has been done for Asset Finance Companies and Infrastructure NBFCs. Under this category CAR is maintained at 10%.

#### ***4.1.8. Addressing the Issues of Producer Companies: Meeting with the Minister for Corporate Affairs***

After meeting Mr. Salman Khurshid, Honorable Minister for Corporate Affairs in the first week of March 2010, Sa-Dhan's team met the officials in the Ministry of Corporate Affairs on 15th March 2010 and appraised them on the importance of considering the interest of Producers Companies while effecting amendments to the Companies Act. Subsequently, the Ministry officials have arranged for the sector's presentation on Producers Companies to the Secretary and other officials of the Ministry of Corporate Affairs on March 26, 2010. In all these meetings, Sa-Dhan has pleaded for incorporating the part pertaining to the Producer Companies with necessary amendments into the new Bill instead of retaining the Part IX A of the Companies Act, 1956 in the old Act without repealing this part.

The proposed amendment Companies (amendment) Bill 2009 is not repealing this part (Part IXA) of the Act, it is necessary to look into these aspects. Some constraints in the current legislation pertain to inability to refuse membership, lack of premium on patronage and overarching role of the Registrar of Cooperatives.

The proposed amendment Companies (amendment) Bill 2009 is not repealing this of part (Part IXA) of the Act, it is necessary to look into these (following) aspects:

- The principle and practice of "Open Membership" lack of incentives to long standing loyal members and delinking capital with user ship. No provision for proxy voting even for geographically spread large organizations.
- Inadequate governance and control due to voting & decision making not linked to patronage (in case producer companies other than the ones formed exclusively by Producer Institutions), absence of external scrutiny etc.
- While there is difficulty in mobilizing internal capital, there is no provision to mobilize external capital.

- The value addition to the producers is dependent on additional investment, interest conflict arising out of returns based on patronage as against that on investments.

Following are some of the requirements that need to be incorporated in the amendment

- Provision for valuation of equity shares and for transfer of shares within members at freshly assessed value incentivizes the members to acquire more shares resulting in capital formation for growth & expansion.
- The valuation of shares to be given to new members
- Easy exist for non-active members
- Provision to include financing agencies in the board without affecting the control by the members.

The Secretary has agreed to retain the part pertaining to the producers companies in the new Bill during the presentation on March 26, 2010. However, any amendments in the nature of major changes in the provisions of the Act need to go through the route of presenting the same to the Parliamentary Standing Committee.

#### ***4.1.9. Financial Inclusion of Dalits and Religious minorities***

With specific reference to the financial exclusion of Dalits, the Dr Rangarajan Committee report states that 49.77% of Scheduled Caste (SC) households, 63.68% of Scheduled Tribe (ST) households and 48.58% of Other Backward Class (OBC) households are financially excluded. Clearly, those worst affected by financial exclusion are the most marginalized sections of society: Dalits (SC/ST) and others. Similarly, the largest minority i.e. the Muslims do not have easy access to financial services.

In order to highlight the issue of financial exclusion of these communities and to carve out of the way forward in terms of efforts of stakeholders for financial inclusion, an Interface on “Financial Inclusion of Dalits, Tribals and Religious Minorities: Issues, Challenges and Way Forward” was organized at India Habitat Centre, New Delhi on 15th January 2010.

The Interface was attended by a wide range of practitioners from fields as diverse as the government, banking and community service sectors. All the participants brought their conceptual frameworks, experiences from the ground and ideas for the future to the table, making it possible to create an initial matrix through which the issue of financial exclusion may be approached in the future.

This very interface was exclusively designed to converge the diverge ideas of the different stakeholders to address the issues encircling Financial Inclusion of Dalits, Tribals and Religious Minorities. It includes meticulous selection of the participants and running them through different case studies and others. This running the participants through the case studies and seeking their response prior to the interface has compelled them to think on the issues and attending the interface with full preparation. The interface was moderated by moderator with some questions but without any design; this was a deliberate drive to give opportunities for discussion and converging the ideas.

The participants had been identified in reference to their association with the issue and magnitude of the work. It included senior level government officials, educationist from different streams i.e. finance, rural development etc, senior microfinance practitioners, journalists, representatives from the fields and others. Total 37 participants had participated in the interface.

The larger understanding which had been generated from the interface are 1) the diversity of the groups and each community's concerns must be addressed within the specific context of their livelihood and not through broad conceptual grids 2) traditional financial institutions must be encouraged to create increasingly innovative products to best serve the needs at the grassroots and there is a need to focus on the credit plus products such as insurance, non-formal savings and remittances 3) crisis in human resources is such that well-thought-out schemes conceptualized at a senior level fail to take root in the ground because of incompetence, inefficiency, corruption or merely indifference 4) exclusion must be understood as a product of not just financial deprivation but also social and cultural traditions and practices 5) there is a need to create interdisciplinary forums together with government, academic and financial bodies to access the best ideas and create the most viable solutions to the complex and widespread problem of financial exclusion.

This interface was a pioneer drive from the platform of the MFIs. The understanding gave Sa-Dhan a basis to develop spearheaded programs to address the issues concerning the Financial Inclusion of Dalits, Tribals and Religious Minorities.

#### ***4.1.10. Sa-Dhan-FICCI National Microfinance Conference on "Financial Inclusion and Responsible Microfinance"***

Sa-Dhan's National Microfinance Conference on "Financial Inclusion and Responsible Microfinance" was held on 17-18th March, 2010. The film titled 'Responsible Finance' surfaced the growth and challenges of the sector developed by Sa-Dhan helped to set the tone for the Conference. The conference platform was used to put emphasis on issues such as the Business Correspondent model, multiple borrowing, social performance, code of conduct etc.

The conference has been a landmark event for us in many ways, foremost being Sa-Dhan's collaboration with FICCI, a network of the corporate industry. The conference received nearly 50 Lakh rupees in sponsorship and got the support of public sector banks and apex financial institutions. More than 1000 participants attended the Conference; including policy makers, parliamentarians, heads of public sector banks on the one hand and, practitioners, academicians, heads of prominent private sector banks, community leaders on the other hand; the conference also saw the attendance of apex financial institutions, RBI and public sector banks. Sa-Dhan ensured the presence of parliamentarians to listen in to the debates on the various issues concerning the microfinance sector. Be it the speakers, or audience or the discourse, each resonated the acknowledgement of the Sa-Dhan forum.

The discussions ranged from endemic issue of poverty to introspection by the practitioners resulting in potential solutions through mobile technology as means of cost cutting, to providing diversified and need-based products and renewed focus on financial inclusion with sustainable livelihoods. The Conference was blogged live by our knowledge partners CMF-IFMR

The Micro Finance bill was discussed by key functionaries from the government such as Mr. R. Gopalan, Secretary Financial Services, Ministry of Finance in whose presence a consensus was arrived at for a cohesive Bill that cuts across legal forms and not limited to just one legal form. Further, as a means for redressal of problems in the sector, creation of an Ombudsman within the purview of the bill was suggested. The regulatory and policy bodies such as the Planning Commission and RBI were represented by the Deputy Chairman and Deputy Governor respectively. It was indeed encouraging to see people from these institutions to grace and use Sa-Dhan's forum. Dr. Montek Singh Ahluwalia corroborated the views

of his colleagues from Ministry of Finance. Mr. Vijay Mahajan, speaking in the conference agreed on a pan sector bill.

Public and private sector bankers represented by their chairmen cum Managing Directors chose the platform to commit lending of \$ 250 million in the near future to the Micro finance Institutions towards realizing the Millennium development Goals by 2015. With the government's focus on "Financial Inclusion", the political leadership represented by two Ministers of the Central Government and one Member of Parliament deliberated at the conference to explain the government's efforts on inclusion. Mr. R. M. Malla, SIDBI and Mr. Sarangi, NABARD highlighted their commitment to the MF sector in order to achieve total financial inclusion.

One of the most well attended sessions was led by the Chair of Unique Identification Authority of India Mr. Nandan Nilekani who talked about UID, the largest resident database using biometric features, utilized the conference. Funded to the extent of \$300 million by the government, it has the potential to change transactions in microfinance. Addressing the complexity of the issue, he gave a key presentation for 45 minutes followed by a Q and A on the facilitative role UID can play to enhance financial inclusion. Mr. Nilekani chose the Sa-Dhan's platform to state how the UID is the biggest game changer in India and would aid MFIs in reducing their transaction cost. The Pension Fund Regulatory and Development Authority (PFDRDA) the regulator on pension immediately announced the role that is expected of MFIs in rolling out the New Pension Scheme (NPS).

Mr. Prakash Bakshi, Executive Director NABARD, encouraged greater adoption of the letter and spirit the Sa-Dhan's Code of Conduct. (Sa-Dhan developed the Code of Conduct for the microfinance sector 2 years ago. Paucity of funds for tools and training components hindered the implementation of the Code of conduct. Now the Code of Conduct is recognized by Central Banks and boards of MFIs have adopted it). Finally, savings through the banking correspondent route was discussed threadbare. Consensus emerged on the need to participate in this opportunity in a large manner & MFIs requested Sa-Dhan to build a program around savings products, given the Association's standing in financial markets.

To conclude, the conference continued to be the "Microfinance Event" of the sector and reinforced Sa-Dhan's position as the industry voice. While the conference was a success, lot of critical work emanating from the deliberations at the conference needs to be taken forward by Sa-Dhan.

*Within the strategy of our engagement, the National Conference platform was utilized in many ways.*

*Firstly, it was the appropriate platform to highlight and deliberate on some of the current issues related to operating model/ legal form that need attention viz. microfinance bill, business correspondent model, savings services for the poor, technology etc.*

*Secondly, there was need to highlight the need for new products and offerings such as social security for the poor, livelihood support, credit infrastructure etc.*

*Thirdly, the conference was aimed at opening new avenues of engagement. In this context, we were able to reach out to UIDAI (now Aadhaar), and PFRDA for future work on bringing benefits from the UIDAI project as well taking forward the work on pension. Knowledge about this new initiative was important as practitioners need to think how they can integrate with this new elephant in the room – Changes in business plans etc.*

*Fourthly, the sessions also demonstrated among key stakeholders- establishing consensus within the industry; 1000 participants – getting banks to support and incentives the adoption of these disciplines - the desire within the sector on self regulation.*

#### **4.1.10.1. Development of the “Curtain Raiser” film for the conference**

As part of the strategy to navigate the discussion at the National Microfinance Conference, the team conceptualized and facilitated development of a film titled “Responsible Finance” as a “curtain raiser” to the conference. Various pertinent issues such as multiple borrowing, social performance, livelihoods, micro-insurance, technology, loan products etc. were raised through the film

While an array of stakeholders, models, legal forms were covered in the film on critical issues facing the sector; the film was shot at locations in Alwar, Kanpur, Bhubaneswar and Hyderabad to give it an all India flavor.

Prior to the film shooting, specific questions were developed for the stakeholders:

- What preparedness is required by the sector considering the statement “total financial inclusion in 2015 vis-à-vis the current state of the sector”?
- What are the gaps/grey areas that need attention for financial inclusion of the excluded?
- What ‘quality’ issues do you see in the services offered by MFI’s?
- How does scaling up affects the client centric approach/character of microfinance? That differentiates microfinance from others.
- MF practitioners are raising the issues of financial intermediation/ literacy but what should be the strategy/intervention to retain the social intermediation part of microfinance? And why?
- What are the various Designs/Model in offering to meet the target towards financial inclusion by 2015?
- What question one should ask to oneself before copying/adopting any model in a new region/market? And why?
- Along with financial inclusion, what other services and linkages are required for poverty alleviations? ( livelihoods & social security)
- Considering the conference theme, one question stakeholders would like to ask to the participants? Without any Constraints & barriers what’s their vision of financial inclusion?

The film was well received by the participants at the conference. Further, the film was uploaded on the Sa-Dhan website

#### **4.2. Reputation Management of the Sector**

The strategic review report has clearly indicated that one of the prominent issues that the sector has to deal in the near future pertains to its reputation in terms of seen as transparent, pro-poor, client sensitive, coverage vs. quality etc. Towards this end, the biggest task before the association is of putting in place a self regulatory framework for the sector, enhancing transparency through reporting, sensitization and education on “social performance” , analyzing the situation on the ground through studies, field visits apart from dealing with issues arising out of growth in regions/ states such as in Kolar. The strategy review report recommended interventions at the state level to respond to local crisis. Towards this end, it was a crucial year to put in place mechanisms in the form of state chapters of Sa-Dhan in some of the growth States. During this period, Sa-Dhan has made efforts to focus on some of these issues.

#### ***4.2.1. Towards Implementation of a Self Regulatory Framework***

The work on the implementation process of the “Voluntary Code of Conduct” as part of the Self regulatory framework has progressed during the period. The Code of Conduct in the context of Indian microfinance sector is pertinent in relation to the recent crisis erupting in states arising out of non-adherence to client protection policies and would bring discipline within the sector contributing to reputation management as well as supporting Sa-Dhan’s work with the regulators and the government.

In terms of the progress on the work, the Code has been revised by the internal team with the help of working groups and other experts/ advisors. A draft concept note on Self Regulatory framework for microfinance sector was developed and shared with the chair & co-chair of Sa-Dhan, Mr. M.R. Umarji (Chief Adviser, IBA) and Mr. A.Vikraman. Sa-Dhan team had initial discussion with Mr.M.R.Umarji (IBA) & Mr. A.Vikraman through teleconference on 16th December 2009. A meeting on Self Regulatory framework for microfinance sector was organized with Mr.M.R.Umarji (IBA), Mr. Ramana (consultant on SRO, Sa-Dhan) & other practitioners on 28th December 2009.

The code was shared with RBI in preparation for their Annual Monetary Policy Statement 2010 as well as in the form of a full session at the Sa-Dhan National Microfinance Conference at New Delhi on 17th and 18th March 2010. Importantly, the SRO framework was also shared with the participants of the “Transformation” Workshop in March end. The major elements of the code are integrity, quality of service, transparency, fair practices, privacy of client information, integrating social values into operations and feedback mechanism. The code puts emphasis on client education and financial literacy, as well as competition.

The compliance mechanism of the code includes:

- Adoption of the code of conduct through board and implementation at MFI level
- Periodic reporting
- Periodic sharing of information on Sa-Dhan’s website , publications and reporting to RBI, Ministry of Finance as per demand

In terms of the compliant redressal mechanism, following are the action steps:

- Constitution of Ethics and Grievance Redressal Committee: 3 Sa-Dhan members and 2 independent members with sound domain knowledge
- Involvement of committee in investigations in complaints from members or clients
- Suggestions concerning membership to the board of Sa-Dhan

The team working on the Code will consult members on the Code in the coming months

#### ***4.2.2. Addressing Operational Issues and Challenges Affecting the Sector***

Within the growth story of microfinance in India, there are operational issues related to resource, client responsiveness, governance and transparency that keep confronting the sector in growth states again and again. As an association, it is pertinent to look into these issues in relation to operations of MFIs. During the reporting period, efforts have been made to address these issues through different instruments toward improving the practice of MFIs with a special focus on the poor clients. The intervention strategy included engagement with stakeholders, transparency reports, workshops, perspective building programmes, field visit etc.

#### **4.2.2.1. *Bharat Microfinance Report 2009: Responsive Growth***

In the context of the present sectoral scenario, the Bharat Microfinance Report 2009 was appropriately dedicated to elements of responsive growth. Based on the audited financial data, this year's report received data from 190 MFIs across India as compared to 160 MFIs last year. Out of that data of 69 MFIs was found to be accurate in all parameters and reported for two consecutive years i.e. 2008 and 2009 permitting data analysis. In the development of this analytical report, data from MFIs as well as NABARD's data on SHG bank linkage has been taken into consideration for analysis. The report was released at the Sa-Dhan National Microfinance Conference 2010.

Apart from usual financial performance analysis, the report also contains separate chapters on SHG performance, Social performance, competition and MFI performance. The SHG chapter captures three aspects of the SHG programme, firstly is the performance of SHG bank linkage programme based on the NABARD's quantitative data for 2008-09, secondly the analysis of qualitative performance of SHGs based on Sa-Dhan' field work as well as review of some of the recent documents available in public domain, thirdly, is a brief account of Sa-Dhan's SHG standards setting and data collection initiative. The last chapter covers the emerging challenges and effect of competition in the form of multiple borrowing and over-indebtedness.

#### **4.2.2.2. *Building Transparency and Credibility of the Microfinance Sector through the Side-by-Side Report***

The work towards the Side by Side report 2010 is under progress. 192 organizations (the last Side by Side Report received data from 162 organizations) data was received for the report. The analysis of received data is complete and the chapters of the report are being written. The report will contain chapters on MFI performance, SHG performance, social performance and emerging challenges in the microfinance sector.

#### **4.2.2.3. *Education and Sensitization Meeting on "Social Performance"***

In the recent times many organizations are transforming into for profit entity. It has been observed that this may inflict "mission drift" whereby the organization narrows its focus to "pure lending". The "Pure lending model" in the context of weaker sections may raise questions of social acceptability and carries high political risk. Whereas the organization doing community work in these situations, always bail out other organization in times of trouble. In this back drop, a focused group discussion was organized on Social Performance and Code of Conduct in Bangalore on 8th August 2009. Primarily, the participants deliberated on Sa-Dhan Code of Conduct and its implementation and Social Performance standards for MFIs and its implementation.

#### **4.2.2.4. *Measuring the Effect of MFI Interventions: A Study***

Though many microfinance institutions are doing good work, the Sector is facing a lot of challenges. Over the last couple of years, policy makers are becoming wary of the Microfinance Sector. Media is rife with news highlighting the pitfalls of the sector. Many MFIs are moving on shifting grounds despite the awareness that the sector is growing fast and has immense scope for further growth. There is no large scale study available in India to inform the sector and stakeholders on the nature of poor household economy and no available study clearly spells out how many people have benefited after availing loans from microfinance institutions.

Sa-Dhan is supporting an independent and reputed research organization i.e., India Development Foundation for conducting a research study. The study would assess the effect of microfinance interventions on the lives of clients. The large scale of this study extends over 5 regions all over the country, cuts across all legal forms and intends to collect data from over 35000 households. The study would cover 14 states: 2 in the North, 4 in the East, 1 in the North-East, 3 in the West and Central and 4 in the South, will cut across legal forms and would cover lending methodologies i.e. SHG, JLG and individual lending.

For the policy makers, the Study would give a clear picture of the MF benefits on the ground and the kind of effect microfinance services have on the poor households. This in turn would help the MF sector to fruitfully engage with policy makers. For the MFIs the study would give an in-depth and informative view on how microfinance is making a difference and how the practice can be made better. For MFIs, the participation in the Study would be a goal in itself that is, reaffirming the social agenda and responsibility of the sector. The Impact Study would help Sa-Dhan in further refining the work on Code of Conduct. Keeping this in mind, Sa-Dhan is doing this Study with IDF.

The study aims to ascertain the number of poor people in India who have participated in MFIs (including SHGs) and moved up from USD 1.25 per capita per day to above it. While the study's rationale and objectives have been communicated to the members, we are encouraged to get a very positive response from the diversity within the membership. Already, 29 MFIs have agreed to be part of the study. A data format was sent to these MFIs seeking the data of their clients. We are happy to state that our members have cooperated very well in providing the data.

#### **4.2.2.5. Addressing the Regional Issues emerging from States**

In the Kolar district of Karnataka, the sector received a jolt in terms of clients refusing to repay the loan to the MFIs. The crisis hit a number of MFIs who were operating in the district. To understand the issues on the ground a Sa-Dhan team visited Karnataka and met an array of stakeholders. It was understood that multiple borrowing by clients across MFIs has caused the non-repayment within the clients. It was also understood that slump in the local silk industry had direct affect on the businesses of the clients and therefore resulted in non-repayment.

The team also met Anjuman Committee at Kolar to gauge into their view on the issues of non-repayment by muslim clients.

#### **4.2.2.6. Towards State Chapters of Sa-Dhan**

The Indian microfinance sector is on a tremendous growth path. The past few years have seen significant changes in the character of the microfinance sector in India in terms of perception and operations. The sector continues to be diverse in terms of outstanding, outreach, operating models, legal forms and regional skewdness. Even within states/ region, the organizations are at different stages in their growth path. The issues represent a broad spectrum ranging from initiating the growth to managing it across organizations. In the recent times, the sector has witnessed expansion of MFIs beyond district and state boundaries. This expansion has also led these MFIs to operate in underserved states in areas where the other MFIs are already working. There is a potential danger of multiple lending and therefore over-indebtedness of clients. Moreover, this has also led to issues of "Cooperation" and "Competition" among MFIs working in the same area. As a result, new issues in focus are financial literacy of clients and client's perspective. The recent

experience of Andhra Pradesh and Karnataka has clearly demonstrated that it will be very important to engage with key stakeholders like banks, government, policy makers, media etc. not only at the national level but also at the region/state level. From the recent experience in the Southern states of the local government's crackdown on microfinance service providers, the Association needs to be proactive on region specific issues.

Looking into the above scenario, the board of Sa-Dhan resolved to form State chapters in growth states of Andhra Pradesh, Tamil Nadu, Karnataka, West Bengal and Orissa. In this direction, dialogue with members in all the states has been initiated.

In the second meeting with members from Orissa, team of Sa-Dhan introduced the recruited State Coordinator for Orissa and West Bengal to the local members and explained his roles and responsibilities. Further, it was suggested by members that there should be a formal inauguration of the State chapter by inviting all the stakeholders. The executive members of the State chapter would try and bring the Chief Minister or the Finance Minister for the occasion. Some of the action points suggested for the state chapter were regular communication with members and participation in cluster meeting on a rotational basis, inviting stakeholders for the quarterly meeting of the chapter, conference at State level, image building of Orissa MFIs, capacity building programmes as per need of the diverse membership, facilitating mechanism of self regulation & code of conduct, data collection for the sector report, member enrollment and renewal from the state.

During our interaction with the AKMI Board, many action points were suggested. While AKMI has planned to merge with the State chapter of Sa-Dhan, it was proposed that the State chapter should ensure presence of state level MFIs in the SLBC meetings, district level bankers committee etc apart from consolidated the data received from MFIs on a periodic basis and submitting it to offices like DC Office, cooperative departments, police departments etc. It was also suggested to bring out Karnataka State Sector Report presenting the overall microfinance sectoral scenario in the state. In terms of sharing the cost of running the chapter it was suggested that it should be on a proportionate basis, certain percentage to be shared between Sa-Dhan Head office and state members.

Sa-Dhan Secretariat had circulated the Terms of Reference (ToR) for the State forums to members in the State of Tamil Nadu. Subsequently, a meeting was convened to get feedback from the members. Members expressed deep concerns on the issue of dilution of group quality, group discipline, interest rate, multiple lending, client poaching etc. It was informed that because of the competition from the new generation MFIs the members are forced to reduce the gestation period for loan eligibility, which in turn could have impacted the repayment performance and group quality. It was opined that Sa-Dhan should have, under its fold, only those members adhering to the philosophy of community development finance. In terms of action points, it was recommended that Sa-Dhan should collect data on effective interest rate in the state in terms of the cost to clients and group formation, group quality and generate a report for the state. The state forum can subsequently evolve on completing this exercise and bringing all the members on board on these social performance issues.

#### **4.2.2.7. Addressing Issues of Risk Management & Governance**

##### **4.2.2.7.1. SIDBI-World Bank initiative-Responsible Lending under Microfinance**

As part of the strategy, Sa-Dhan is actively participating in the initiatives that are led by Apex Financial Institutions such as SIDBI on the issues of responsible lending, In this regard, Sa-Dhan participated in the SIDBI-World Bank initiative-Responsible Lending under Microfinance Meeting held on 9th December 2009. At the end of the meeting, the rating agencies agreed to develop some indicators for monitoring Sa-Dhan's Code of Conduct/ ensuring responsible lending within a month and then it was decided to take forward the agenda in consultation with MFIs/Sa-Dhan

##### **4.2.2.7.2. Helping Members Explore to Mitigate Risks: Workshop on Risk Management & Governance: Bangalore & Gurgaon**

In 2005, microfinance institutions got recognition when Finance Minister talked about 60% inclusion in his budget. Since then the whole scenario has changed. Bankers, Investors, Technical Service Providers have started showing interest to microfinance institutions. Within this scenario there is an urgent need to look into important issues that require attention. The serious concerns are on the issue of interest rate, lending, repayment, equity, financial flow and qualitative human resource. So, the risks must be looked into from these aspects.

Risk is an integral part of financial intermediation that MFIs do. When financial institutions issue loans, there is a risk of borrower default. When banks collect deposits and on-lend them, to other clients, they put clients' savings at risk. Any institution that conducts cash transactions or makes investments risks the loss of those funds. Development finance institutions can neither avoid risk nor ignore risk. The financial institution should understand all types of risk and able to adopt measures to mitigate those risks.

Risk is an integral part of MF activity where no collaterals are taken. Microfinance portfolio is exposed to credit and operational risk. Microfinance institutions (MFIs) face risks that they must manage efficiently and effectively to be successful. If the MFI does not manage its risks well, it is likely that it will fail to meet its social and financial objectives. When poorly managed risks begin to result in financial losses, donors, investors, lenders, borrowers and savers tend to lose confidence in the organization and funds begin to dry up. MFI is not able to meet its social objective of providing services to the poor and quickly goes out of business.

The purpose of risk management from a financial institution's perspective is to protect the institution from losses, attract capital and instill confidence in regulators. It is also important to highlight that all institutions should perform a 360 degree risk assessment, which is a review of all the institutions' risks (i.e.: operational risks, insurance policies etc).

Keeping in view the importance of topic, Sa-Dhan organized two education programs to make participant understand about this critical aspect in the entire MFI operation. These were held on 09th- 10th June 2009 at Bangalore and 06th -07th October 2009 at Gurgaon. The number of participants at Bangalore was 71 where as in Gurgaon the participation was 30.

The areas covered in these programmes were:

- Introduction on risk management and governance, Overview on financial risks in MFIs, Credit risks/ liquidity risks in MFIs, Overview on operational risks in MFIs

- Overview on strategic risks and governance in MFIs, Strategic risks (reputation risks), and SPM, Transformation of MFIs to NBFCs, Overview on governance, Governance in MFIs – Requirements and Risks, MFIs their response to environment, risk and governance and bankers point of view

The participants were from large, medium and small MFIs apart from banks, training institutions

#### **4.2.2.8. Addressing Issues of Growth: Meeting with the National Commission for Minorities on Kolar issue**

Sa-Dhan team met Shri Mohamed Shafi Qureshi, Chairperson; the National Commission for Minorities held on 17th December 2009 and updated him about the developments since the previous meeting. Mr.Qureshi's queries on purpose of loan, its utilization, quantum of loan locked in the problem etc were clarified during the discussion. Sa-Dhan sought Mr.Qureshi's intervention to resolve the issue. Finally, the chairperson assured to advise the Secretary, State Minorities Commission to mediate between the MFIs and the Anjuman Committee to resolve the issue amicably

#### **4.2.2.9. Competition and Multiple Borrowing: Interaction with field level staff and ultimate clients**

Sa-Dhan also made efforts to understand the issue of competition and multiple borrowing in different regions across models. Towards this, a team visited Nirman Bharati (JLG model) and Shramik Bharti (SHG model) to look at the ground level operation in relation to the issue of competition and multiple borrowing. It was found that:

- SKS, Sonata and Nirman Bharti are operating in the same area. Due to multiple borrowing the default is 90% for all the organizations. SKS has already wound up their operations from the area, and others are slowly winding up.
- Staff incentive mechanism is driving disbursement to clients without assessing the group quality and the repayment capacity of clients
- Announcement of loan waiver by the UP government encouraged clients not to repay
- Most of the loans taken in the name of income generation are used for consumption resulting in defaults

### **4.3. Strengthening the SHG Movement**

#### **4.3.1. Building the Agenda on SHGs: Meeting of the Task Force on SHGs**

The strategic review report recommended special focus to be provided to the SHG model because of it being the government's model for delivery of microfinance services. To this end, within the structure of the Association, a Task Force specifically on SHGs was recommended by the board.

We had the first meeting of the Task Force on SHGs during this period. While concerns were shared on the deteriorating quality of SHGs and the lack of capacity of institutions engaged in the SHG movement, the members articulated the way forward for Sa-Dhan in the SHG space.

Following were some of the key priorities articulated by members:

- Engaging with RBI, NABARD, BIRD, RRBs and other lead banks to improve the processes of SHG bank linkage in terms of address the issues around diminishing credit flow to SHGs and opening of bank accounts
- To take initiative and facilitate a policy dialogue with Ministry of Rural Development, Planning Commission and State government on National Rural Livelihood Mission (NRLM) on design and additional promotional funds.
- To lobby for and mobilize resources from government, NABARD, funding agencies in the area of promoting the SHGs and facilitating capacity building
- Design and facilitate a campaign on savings as a tool for sustainability of SHGs
- Capacity building of SHPIs including federations
- Data collection on SHGs with members
- Engaging with BIRD and other banker's training institution vis-à-vis SHGs
  - Enhancing capacity towards SHG bank linkage
  - Education and sensitization of banks
- Bankers' training program through members of Sa-Dhan

#### ***4.3.2. Conceptualization and Development of Approach paper on SHGs for Sa-Dhan***

Arising from the first Task Force meeting on SHGs, it was recommended to conceptualize and develop an approach paper on SHGs that would define the contours of work on SHGs for Sa-Dhan. The team developed the approach paper and shared it with few of the Task Force members. The approach paper recommended the following for Sa-Dhan to pursue on SHGs:

- There is a need to facilitate the flow of resources to the underserved regions (North, NER) & building the capacities of the local institutions, NGOs, government functionaries, to achieve the agenda of financial inclusion.
- Need to promote and strengthen the institutions for enhancing the quality of SHG by channelizing the funds
- Need for convergence of various programmes for the holistic development of poor.
- State/ Region specific focus and helping in channelizing the fund to strengthen SHGs as people owned institution.
- Funding support is required for promoting SHGs in regions with high level of exclusion and in difficult terrain such as the North East.

#### ***4.3.3. Recommendation on SHGs to the Prime Minister***

The SHG bank linkage programme is well acclaimed as the largest microfinance programme in the world. However, within the large numbers both in terms of loan outstanding and outreach that the programme has reached, there are issues and challenges that exist. These issues and challenges have already reinforced itself in terms of high NPAs in the programme with SHGs in some of the states resulting in declining funds flows to the SHGs. Further, the sector is debating on the quality aspects of SHGs as well as the need of enhancing capacities of the promoters. Promotional cost is an issue that is pertinent as ever. SHGs have been a vehicle for implementation of many government programmes, but these were marred by absence of convergence of

efforts of different government agencies, NGOs, state governments etc. apart from the constraints inherent in the design itself.

Looking into these issues and to bring focus on issues related to SHGs, a SHG Task Force was created within Sa-Dhan. Subsequently, the SHG Task Force recommended engagement with the government, RBI, NABARD, BIRD, RRBs and other lead banks to improve the processes of SHG bank linkage by highlighting the issues that exists.

The Prime Minister Mr. Manmohan Singh called a meeting on issues and challenges for the SHG movement on 6th March 2010. Anticipating this as a great opportunity for us to communicate to the government on issues the SHG movement is facing in its present form, recommendations were sought from the Sa-Dhan members working with SHGs. Further, the recommendations were consolidated in the form of a recommendatory note for the meeting with the Prime Minister and provided to the sectoral person going for the meeting.

#### ***4.3.4. Communicating Issues and Challenges within the SHG Movement to key Parliamentarians***

During the preparation for the Sa-Dhan National Microfinance Conference 2010 an invitation was sent to Mr. Rahul Gandhi, General Secretary, AICC and MP to attend the same. Though he could not make it because of his preoccupation with other prior commitments, we took this opportunity to send him a letter of recommendations on SHGs which he is quite familiar with and sees as potent model for financial inclusion.

The following were the recommendations sent to him:

- Large amounts of funds designated for promotional work lapse in many government programs. A new governance of such funds /corpus is required to accelerate disbursal especially for Institutional Capacity Building of these groups, their leaders, systems and their monitoring. It is essential to provide technical support to SHGs for setting up of financial records, audits and account keeping. Also, technology provides the confidence among the members which very less number of organizations are able to do because of the lack of funds.
- Staff and offices in rural branches have very sharply declined over the past few years. Although the emphasis has been given on the branch expansion (2008-2009)<sup>1</sup> but there is a need for more staff, with proper training to open service and monitor bank accounts of SHGs.
- Convergence and synergy between various government departments and schemes. This will help poor to attain holistic development which includes livelihood, social security, health and living standard of the family.

There are various government programmes like National Rural Livelihood Mission (NRLM) which focuses on universalization of SHGs covering 4.5 crores BPL families; promotion of SHG federations from village level to national level; emphasis on training and capacity building to strengthen SHG institutions. For these lot of fund is required. Although, various initiatives have been taken by the government and have provided funds like NABARD's fund has been enhanced from the existing Rs100 crores to Rs 200 crore which is meant for Capacity Building, MIS, funding support etc. Similar fund is lying with Ministry of Women and

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<sup>1</sup> RBI has granted 785 licence to RRB's of which 734 had already been opened( RBI 2009:81)

Child Development (RMK) Rs.88.00 crores in 2006-07. There is a need to have convergence and synergy between various departments and schemes. This will help poor to attain holistic development which includes livelihood, social security, health and living standard of the family.

#### ***4.3.5. Facilitating Collaboration between MFIs and Ministry of Rural Development: Low cost funds to MFIs to lend to SHG along with other support services***

Subsequent to the meeting held on 14th December 2009 between Sa-Dhan and Ministry of Rural Development on possible collaboration between MoRD and MFIs, Sa-Dhan organized a meeting on 28th and 29th December 2009 between member MFIs working with SHGs and MoRD. It was decided to develop a pilot project of this collaboration and Sa-Dhan in consultation with the participating members to submit a detailed proposal in this regard.

A proposal note was submitted by Sa-Dhan to the Ministry of Rural Development. The pilot project attempts to address some of the issues preventing the rural household (explained in above) to come out of the vicious cycle of poverty. The major components of this pilot project are as follows:

- SHG Promotion and Nurturing
- Capacity Building Component
- Handholding for livelihood
- Providing financial services at low cost

The proposed pilot project intends to reduce MFI's burden of cost of delivery on the one hand and to provide financial services to the Self Help Groups with low cost funding. This will be achieved through the partnership between the MFIs and the government in the following manner:

- The handholding and capacity building cost will be met by the Rural Development Ministry, GoI. The handholding fund to extent of Rs.10000/ per SHG and the capacity building fund to the extent of Rs. 5000/to 7500/ per capita to the concerned MFIs.
- The Rural Development Ministry, GoI to provide an interest subsidy to the extent of the difference between the prime lending rate and 6 per cent.
- The MFI will receive funds at 6 per cent through banks.
- Further, the banks can waive the processing fees/service charges on the loans to MFIs under the scheme.
- The MFI in turn will be able to provide funds to the Self Help Groups at 6%p.a. plus small incidental expenses depending on the region.
- Those MFIs who do not have sound groundwork on livelihood can build linkages with livelihood facilitating organizations
- The project focuses on the capacity building and hand holding of the households, the loan loss is expected to decline significantly.
- As one of the reasons for recurring poverty in rural area is the household inability to withstand against the frequent shocks occurring on account of natural calamities. This risk can be mitigated through group insurance scheme as available to other government schemes.

After the proposal was submitted, the Joint Secretary Incharge was transferred and therefore Sa-Dhan needs to build liaison with the new joint secretary to take the project forward.

#### ***4.3.6. Focus on SHG Federations: Workshop on “SHG Federations: Scaling and Sustainability”***

Sa-Dhan in collaboration with Chaitanya organized a workshop on “SHG Federations Scaling Up and Sustainability” on 1st October 2009. The objectives were to bring together stakeholders and facilitate deliberation on existing state of SHG federations, scope and way forward.

Few of the presentation made at the workshop focused on a study of federations in Maharashtra, another study on the costing of federations, need for IT in improving MIS of SHG federations and federation model promoted by MAVIM. Financial supporters of federations viz. banks, NABARD and FWFB were also present in the workshop.

The workshop discussed and set some clear priorities with respect to the SHG federations

- Importance of building the capacities of SHGs for building stronger federations.
- Need for federating should come from the women and should not be imposed over them.
- Various laws for registering the federations and also about the microfinance Bill that is being discussed in the parliament.
- Emphasis on importance of linking of federations with the banks and on the need for bankers for identifying federations as potential financial intermediaries.
- The bankers on the other hand encouraged NGOs and federations to act as banking agents and also to participate regularly in SLBC meetings for putting forth their requirements.

Participant from IBM and Data Vision presented the importance of technology in strengthening the Information System of federations and the possible services that the federations can provide to their clients by using IT

#### ***4.3.7. Exploration of Work with Public Sector Banks on SHGs in Selected States***

Sa-Dhan team visited Central Bank of India, Union Bank of India on 9th December 2009 and planning to explore working with public sector banks to promote SHG movement in selected states through a special purpose vehicle. Further, Sa-Dhan is also exploring to get sponsorship for the conference from these banks and to bring IBA chairman, Mr. M.V. Nair, CMD, Union Bank of India on the board on the Sa-Dhan’s SRO steering committee. Dr.Gowri Shankar, Director-microfinance met Sa-Dhan team on 8th December 2009 and discussed the possibility of sponsoring Sa-Dhan conference

#### ***4.3.8. Strengthening organizations working with SHGs/ SHG Federations and Enhancing Resource Flow: Meeting with Honorable Minister, Ministry of Rural Development***

In order to highlight issues within the government programmes involving SHGs as vehicle, and the possible role organizations within that, a meeting was sought with the Honorable Minister, Ministry of Rural Development on 18th June 2009 at Krishi Bhawan, New Delhi. The delegation comprised of a mix of SHGs and livelihood practitioners from the membership of Sa-Dhan along with the Sa-Dhan Secretariat.

The minister was apprised of the issues concerning SHGs and SHG federations in terms of the need to strengthen the promoters as well as enhancing resource flow At the outset, the minister shared that lot of work has already been done on micro-credit through the SHG/ SHG federations, and suggested that the focus now should be on “Social Mobilization” along with micro-credit. In this context, he suggested having

SC/ ST and minorities as the target group. In order to have a better understanding of the microfinance sector, he asked for a note on the same. It was suggested to have a half day workshop with the few of the representatives of the sector.

As a follow up to the meeting, a concept note on issues related to SHGs/ SHG federations was developed and shared with the minister.

Another meeting took place with the minister on 13th October 2009 seeking advice on the proposed one day meeting with the members. During the discussion it was shared with the minister that people at the grassroots have successfully been engaged in the work and whatever things they take like livelihood, social security etc, the small NGOs & other practitioners have been successful in implementing it on the ground in some areas whereas the government schemes have failed to do so. The reason may be the constant engagement of the NGOs/organizations at the grass root, which government has failed to take care of.

It was suggested by the minister to develop a note on the same. Further, on the issue raised regarding restriction of schemes for BPL families only, it was communicated that the issue is already been raised at various forums, and there is a need to convince the Planning Commission on the same. He emphasized on the capacity building within government schemes for success.

#### ***4.3.9. Need for Technology in taking the SHGs to next level: Meeting with NABARD***

Sa-Dhan team met NABARD officials on 22nd April 2009 to highlight the issues concerning the SHG movement. It was suggested that for the greater financial role of SHGs, for their sustainable development and to take SHGs to the next level, there is a necessity of technology to support the process. It was pointed out that though there is an influx of softwares in the industry, but it is directed primarily for the Grameen model and not the SHGs( where there is a need to capture the social inputs). Also, the existing softwares are expensive and therefore unaffordable for the federations.

It was also shared that federation of one of the Sa-Dhan members, namely Roshan Vikas is in the process to work as Business Correspondent for the State Bank of India, which is a financially viable model, where the support of technology is inevitable. It was proposed to introduce technology in the operations of federations of Roshan Vikas as a pilot that could be replicated in other places. The NABARD officials asked Roshan Vikas to develop a proposal and send it to them for their concrete reflections on the NABARD software called "Navyukti".

### ***4.4. Sector Building Initiatives***

#### ***4.4.1. To Improve Banks' Understanding of Clients and mf Operations Towards Increased Resource Flow***

In the context of rural financial sector, BIRD is playing an important role through Training, Research and Consultancy services to its customers and undertaking other related activities in the field of agriculture and rural development banking. In this context, it was recommended by the Task Force on SHG to seek institutional collaboration with BIRD in building the microfinance sector in India through contributing to some of the initiatives of BIRD such as the training module specific to microfinance directed at banks and practitioners, training programmes, exposure for Banks and practitioners etc. The objective of the collaboration would be directed at increased understanding of the clients and microfinance operations among banks and practitioners and therefore resource flow to the sector.

Sa-Dhan team met the senior officials from BIRD and explored the possibility of engagement with the design and development of its training programme on microfinance for bank staff and MFIs, contribute as resource persons in its training programme and facilitation of participants for BIRD’ s programme from the sector.

The immediate result of the meeting was that BIRD invited Sa-Dhan to participate in the “Syllabus Committee meeting of BIRD” where they seek inputs on the design and module of the training programmes for the next one year. Mr. Ganesh Pandey (member of the Task Force on SHGs) represented Sa-Dhan in the above meeting and provided inputs to BIRD.

#### ***4.4.2. Facilitating Resource flow to Members in States: Information Sharing and Engagement with Schemes of Banks***

Being the largest network of microfinance service providers, many of the banks approach Sa-Dhan and seek information on the list of member MFIs of Sa-Dhan for lending. In this context, State Bank of India sought information on the various eligible NGOs/ MFIs for MFI financing. Sa-Dhan shared the information on the list of member MFIs with the State Bank officials.

Similarly, Sa-Dhan conducted a study to understand the profile of the RCFs, the borrowers and relevance of the scheme for the borrowers and viability for the bank. This was in relation to the bank’s scheme called “Rural Credit Franchisees (RCF) in South India.

#### ***4.4.3. Perspective Building Programme on “MFI transformation: Why, How & the Impact”***

There is a growing trend of NGO-MFIs transforming into for profit legal from as a result of the constraint that they face to raise debt or equity for expanding the microfinance operations. These coupled with many other factors have been driving NGOs to transform into more legalized/ regulated forms of microfinance entities like NBFCs, Section 25 Company etc.

In order to analyze and inform the NGO- MFIs on the nuances of transformation process, Sa-Dhan organized a two – day perspective building programme on “MFI transformation: Why, How & the Impact” at Pune during 6-7 August 2009. A total of 30 representatives from organizations participated in the programme.

The areas covered under the programme were:

- The need for Transformation, Transformation: Possibilities & Options, Organizational & Business restructuring for Transformation, Transformation & Double Bottom Line, Rating & Investment, Legal & Accounting aspects,
- Transformation Process: Steps, Strategic Business planning, NBFC Statutory Compliance, Technology for Business expansion, Key aspects of Business & Financial planning for Transformation
- Resources: Equity, Debt & Grants, Practitioner’s perspective on resource flow, Retaining Work culture & Ethics, Professional v/s Voluntary conduct (Admin & HR), Expectations from the stakeholders: Changing from a beneficiary to a customer

The workshop participants invariably felt the need for transformation and also were wary of intensive financial, human and technological investment that the process would demand. There was also a consensus

among them that the majority of them lacked technical expertise in completing the process successfully. They wanted Sa-Dhan to repeat such program periodically.

Following the feedback received from the workshop, Sa-Dhan again organized a three day comprehensive, inter-active education program to enable MFIs to better understand the transformation process.

#### ***4.4.4. Educating members to help their clients to manage risk: Micro-insurance Education Programme, Hyderabad***

Microfinance institutions have started realizing the importance of insurance to their borrowers. The organizations, so far providing only credit, are getting convinced that for creating long-term impact on poverty it is essential to secure the loans and the income generating assets of the borrower household. As a result many MFIs are looking at micro insurance as one of the essential services rather a complementary one. Yet the Micro insurance has not seen major expression because of the lack of experience of most MFIs, lack of suitable products and to a certain extent lack of awareness and appreciation by the clients about Micro-insurance.

It was in this context, it was envisaged to conduct special education programme on Micro-insurance that will not only facilitate perspective on the subject of micro-insurance but would also facilitate cross learning of experiences of micro-insurance practitioners. Designed for mid –career and senior decision makers both from MFIs/NGOs who are involved in mF operations ,micro enterprise development and commercial insurance providers from public and private sectors, the program provided excellent opportunity for a platform for clients and prospective clients of micro insurers to interact and collaborate with each other for better social security practice.

The Micro-insurance Education Programme conducted at Hyderabad from 4th to 9th May 2010 had an innovative design of class room learning and field visits. There were 20 participants attending the programme. The five day micro insurance education program was inaugurated by Shri, J. Hari Narayan, Chairman IRDA. The distinguished panel of speakers consisted of representatives from leading insurance companies, big MFIs, micro insurance experts and research scholars. The areas covered under the programme were:

- Overview of Risk mitigation products for the poor, scenario of Micro insurance from regulatory perspective, latent need of the rural market & role of insurance providers, scenario of micro insurance from regulatory perspective, latent need of the rural market, role of insurance providers, competence of the present products, Performance Standards in the Micro Insurance Industry
- Asset Insurance, Health Insurance, Credit Insurance, Live Stock and Crop Insurance, Success stories /bad experience
- Micro Health Insurance Present scenario, Case studies
- Role of micro insurance in addressing livelihood needs of the poor

#### ***4.4.5. Livelihood Expedition: Practitioner' Learning through Demonstration***

Micro credit, even the microfinance for that matter, is a means to an end and not an end in itself. Certainly micro credit provides one of the vital inputs, credit, for meeting the poor' needs. The poor borrowers' sustained repayment depends on their income flow. Ensuring income generation for the borrowing poor could entail 'real' repayment of micro- credit. The obvious option would be livelihood generation.

The Livelihood in the context of microfinance harnesses the organized nature of the clients of Self Help Groups (SHGs), Joint Liability Groups (JLGs) etc to produce and market the output jointly and hence remuneratively. Several SHPIs of Sa-Dhan have demonstrated the sustainability of production and marketing of meat, handicrafts and other farm produce in Kerala. The purpose of ‘Livelihood Expedition’ conducted from 7th to 11th September in Cochin was to showcase such successful projects to the MFIs, SHPIs, NGOs and other development practitioners to enable them implement the same among their poor clients. A total of 33 representatives from these organizations participated in the programme.

The design of the “Livelihood expedition” was a equal mix of class room learning and field visit. In the class room participants were introduced to the history, concept of Livelihood & Livelihood promotion, challenges, risks, roles of livelihood promoting organizations etc. The participants were also made aware about portfolio mapping, analyzing local resources, analyzing market & market places, pinpointing activity & interventions.

The program was intended for senior development workers from MFIs, Community Development Finance Institutions, Self Help Promoting Institutions, Livelihood Promoting Organizations, Development Organizations and other development professionals and organizations involved in or support livelihood promotion interventions for the poor.

#### **4.4.6. Workshop on Social Performance**

In the times when the microfinance sector in India is coming under the scanner because of the alleged practices of some of the MFIs in different regions, ‘Social Performance’ as a concept has meaning and dimension to it. It is pertinent within the growth trajectory of the sector in India that is growing at a rapid pace. The concept of Social performance and its critical importance as an inherent component in lending to the poor is being recognized worldwide. In India, Social Performance Concept is still evolving among the MFIs.

As part of the reputation management initiative for the sector, it was pertinent for Sa-Dhan to highlight the importance of social performance in the context of the Indian microfinance sector. Moreover, building a common understanding on the concept of Social performance was also important. To this end, a workshop on “Social Performance” was conducted by Sa-Dhan on 19th March 2010 at New Delhi. The workshop was attended by 58 participants including members in different categories, investors, bankers etc.

Following were the key questions that the participants deliberated in the workshop:

- How social performance is relevant for Indian sector?
- What are the benefits and costs of managing social performance?

**Quality Audit Tool (QAT)** is a practical diagnostic tool that supports managers in reviewing the status and effectiveness of an MFI’s management processes in achieving social goals. It helps in ensuring that an MFI is on track towards achieving its social goals, identifying the strengths (you can build on) and addressing the gaps through process of improvement, that avoids overload.

The QAT focuses on:

- examining process management
- viewing internal systems
- assessing the status and effectiveness of internal systems for strengthening the social performance management in supporting achievement of social goals
- acknowledging good social performance practice up to date (strengths) and identifying gaps (weaknesses)
- identifying and prioritizing necessary actions to improve social performance

- What is the experience of other countries?
- Industry initiatives – what is their role and how to use them?
- Diagnosing and improving your social performance: how to start and what can you implement immediately?
- What are the next steps for Sa-Dhan in social performance?

Quality Audit Tool was also shared during the workshop by Mr. Volodymyr Tounytsky, Microfinance Centre, Poland and Ms. Leah Nedderman, Social Performance Task Force.

#### ***4.4.7. Facilitating development of Quality HR for a Resurgent Sector***

Within the unprecedented growth in the sector, one of the key issues that require attention is the availability of quality HR in terms of required skills for the peculiar need of the sector as well as HR systems in MFIs so that it can attract these resources. Sa-Dhan is trying to address the issues at both ends, within the estimation that about 35,000 to 40,000 personnel are required every year. With the growth becoming more aggressive, these numbers may go even higher.

Following are some of the initiatives that Sa-Dhan has undertaken during this period:

##### ***4.4.7.1. Development of HR Manual***

While efforts are on to bring more workforce into the microfinance, suitable measures need to be taken up to help MFIs to motivate and retain the workforce. All MFIs have invariably their own ways of managing their employees. They have prescribed pay scale, leave facility, medical, loan facility, training, etc. During the interactions with Sa-Dhan members on various occasions like visit to member organizations, trainings, workshop, etc, Sa-Dhan staff found that the members follow different strategies for motivating and retaining talents. Several members' esp. small members want to know the best practices followed by fellow MFIs as part of overall HR management. They need to understand the right recruitment methods, training, adopting suitable incentives system, etc to manage the existing talents.

Keeping the above requirement in mind, Sa-Dhan in its sub –group meeting discussed the matter and decided to bring out a User Guide on HR for MFIs and NGOs. The user guide was expected to help the users to design appropriate HR practices in the light of different methods being followed by their counterparts. The manual has been developed through a process that involved responses from 31 members through questionnaire apart from direct interaction with 8 members from different regions. The first draft of the manual is ready. The manual is going to be finalized soon.

##### ***4.4.7.2. Developing Standard Manual to Introduce Microfinance Course***

It is in this context, Sa-Dhan being the custodian of the sector is concerned with the mentioned distortions in introduction of microfinance by different people. Sa-Dhan has therefore come up with the Standard manual to guide people to explain the topic of microfinance in a cohesive and structured manner covering at least those topics which are critical to 'microfinance' and without which the introduction to microfinance will not be complete. The purpose of this manual is not to give details of the subject topic or to elaborate on the technical issues but to point out the topics for introduction, brief description of these

topics, and outlining their relationship with each other. The speakers can do their own research on the subject topics. The manual however, does give references of the reading material, publications and websites.

The manual will guide teachers, trainers, speakers and all those who are related to microfinance and have to explain the topic to others. The critical topics suggested by the manual pertaining to microfinance in India are poor, definition of microfinance and services provided, microfinance institutions, revenue model of microfinance, microfinance models, and evolution of microfinance, best practices and risks in microfinance. The manual has been finalized through a feedback mechanism through the capacity building subgroup. The manual will be circulated to interested educational institutes desiring to initiative a course on microfinance as well as in our educational workshops.

#### **4.4.7.3. Engagement with the Universities to Design Course Curriculum on Microfinance**

Foreseeing the future HR requirement for the sector, Sa-Dhan had proactively engaged with the Indian Institute of Banking and Finance (IIBF) to develop the “Diploma in Microfinance” as a mechanism to attract quality HR to the sector. Arising from the interest that the above course was able to generate among the academic institutions, several universities approached us in helping them launch similar courses or as a subject in their existing curriculum. The strategy to approach the introduction of microfinance in the course curriculum has been very cautious. It is pertinent to first of all orient the participants on the microfinance sector & its human resource requirement, apart from exploring solutions to meet the HR requirement of the sector. It is in this context, that Sa-Dhan is organizing workshops for IIT, Guwahati and Women University, Sonepat in terms of providing perspective on the sector as well as its HR requirements. The targeted participants of these workshops will be Decision making representatives of educational institutes, academicians, professors from economics, rural development, agriculture development, social/community work, etc and microfinance practitioners.

#### **4.4.8. Facilitation for training support from external sources**

##### **4.4.8.1. Training Calendar**

The basic purpose of the training calendar is to disseminate the information to all stakeholders on various training programs organized by specialized institutions across the country. The Calendar provides details about the trainings and organizers for the current financial year. This time we made exclusive online software for the same for its wider visibility. This year calendar is already available in our website [www.sa-dhan.net](http://www.sa-dhan.net)

##### **4.4.8.2. Resource Directory**

Resource Directory is an attempt to identify the available resource person thematic area wise across the country, which are ready to offer their services. This time we made online software to receive the CVs of potential resource person and after appraisal finally approving the same to be displayed on the website. Already 20+ resource person CVs has been approved and available on our website for the use of microfinance fraternity

#### **4.4.9. Enhanced Technology Usage for Managing Data: Sa-Dhan Operations Management System (SOMS)**

Sa-Dhan has been endeavoring to manage the data relating to members. The strength of technology is harnessed for the purpose. A specialized software (SOMS- Sa-Dhan Operation Management System) has been developed to handle the MFIs data collected by Sa-Dhan.

The software now hosts financial data relating to 233 MFIs (Mostly Sa-Dhan members) for the past three years.

Sa-Dhan plans to upgrade SOMS with the following objectives/needs in views:

- There have been multiple demands in Member facilitation cell to furnish members data in different permutation and combination. Maintaining an effective registry/filing/e-filing system and information database for the members will help cater to the needs
- Providing easy access for all kind of information related to members
- Handling/Tracking of the member admission process
- Ensuring smooth communication with member organizations across the country by forwarding information and following up on specific issues etc

A full-fledged team has been working on the project.

### **5. Future Challenges and Road Ahead**

The year has been a landmark year for Sa-Dhan. In addressing, the complexities arising in the sector, the Association raised its standards of work and developed new programs and strategies to deal with these. Consequently, Sa-Dan has repositioned itself during the year.

Sa-Dan was dealing with a dual challenge of identifying itself within the contours of the sector in India through the “Strategic Review Exercise” as well as the pressure of delivering in the context of what is required. To add to the challenge, parallel to the strategic review, we had to engage with the issues of the NBFC members of Sa-Dan. These two engagements helped the Association to sharpen the framework around which it had to work for the future.

Reputation management of the sector is the priority area for the sector, and within that next year will be crucial for initiatives like the implementation of Code of Conduct as the self regulatory framework for the microfinance sector, apart from sensitization, education, knowledge building and reporting on social performance. Focusing on what is happening to the poor households, and adding value to our services in the context of livelihoods and micro-enterprise will be new areas of emphasis. Another, key initiative would be the stabilization of the State chapters of Sa-Dan that will be critical for our engagement in the growth states.

Another area of focus will be the issue of resource flow to the sector. Enhancing resource flow from within the government system through designated funds as well as from banks especially to SHGs will be an important issue that will seek our attention. Further, engagement with Ministry of rural Development and MSME on different programmers/ funds will continue on the SHGs as well as MFIs. Intervention on the Business Correspondent Model would be crucial to facilitate removing some of the existing bottlenecks.

Microfinance bill will continue to be an important rallying point for the sector before the policy makers. Our work on facilitating creation of common good infrastructure viz. credit guarantee fund, quality HR through the Diploma and engagement with Universities and colleges will further mature and take shape in the next year. These are crucial sector building initiatives.

Apart from the engagement with the stakeholders in the sector, the next year would focus on two important segments i.e. the parliamentarians and the legislators and the media. For growth it is important that the good work done by the sector is shared with the larger public as well as their representatives, who are the most important constituents of the policy formulation process. We also need to revitalize our communication strategy and the information dissemination process through the website and publications.

Arising from the recommendations of the Strategic review report, the year 2009-10 has witnessed the realignment within Sa-Dhan in terms of its focus, priorities, strategy of interventions, organizational and member engagement structures in terms of the new thematic teams and new concept of Task Forces. All these will be further refined as we go forward to equip Sa-Dhan to respond to the future challenges of the sector. To provide impetus to some of our new initiatives we would get new skills set to the organization.