



VISION MICROFINANCE 2012

Madhya Pradesh



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A. Ramanathan

Chief General Manager, NABARD

Adrian Marti

Deputy Country Director
Swiss Agency for Development and Cooperation

Ajit Kanitkar

Program Officer
Development Finance & Economic Security,
Ford Foundation

Annie Duflo

Research Coordinator
Centre for Micro-Finance

Brij Mohan

Chairman, Access Development Services
Vice Chairman

Caitlin Baron

Director, Microfinance Initiative
Micheal & Susan Dell Foundation

C S Reddy

CEO, APMAS

Malcolm Harper

Professor Emeritus
Cranfield Institute of Management, UK
Vice Chairman

N K Maini

CGM, SIDBI

N. S. Sisodia

Former Secretary, Banking Division
Ministry of Finance
Government of India
Chairman

Prabhakar Ghate

Researcher and Consultant

Sitaram Rao

Former Chief Executive, SKS

V Satyamurty

CEO All India Association for Micro Enterprise
Development

Vartika Jaini

Senior Program Officer, Sri Ratan Tata Trust

Vijayalakshmi Das

CEO, Friends of Women's World Banking

Vipin Sharma

CEO, Access Development Services



Microfinance India Secretariat:



Microfinance India

28 Hauz Khas Village
New Delhi 110 016

Tel. 91-011-26510915 Ext. 212

Fax. 91-011-26850821

www.microfinanceindia.org

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An ACCESS Initiative

Microfinance India
28, Hauz Khas Village, New Delhi - 110 016

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Message

Microfinance has become a mainstream instrument for providing access to formal financial services for vulnerable sections of people. The power of people participation through the SHGs and the JLGs has been harnessed successfully on a large scale with significant benefits. While some parts of India have taken the lead and revolutionized their rural sector with intensive microfinance coverage, some other parts of the country have considerable room for growth.

Madhya Pradesh is in the take-off stage of microfinance activity. The state is uniquely placed in terms of a willing government, eager financial institutions and a resourceful voluntary sector. Concerted action by all these players would enable accelerated development of microfinance sector in the state. The need for a shared and common vision for the sector with a large and unfinished agenda cannot be over emphasized. Once the different stake holders are clear of their respective roles and resources, harmonized action becomes possible. This document, Vision Microfinance 2012 MP provides a concrete basis for common action by different stakeholders. The document proposes a vision, rationale as also the steps necessary for realizing the vision. It focuses on the institutional requirements, human and financial resources necessary for achieving the target of providing access to financial services for 10 million micro clients in the state by the year 2012.

The document takes into account the roles required to be played by the different players, the legal framework and the policy of the central and state governments. Reforms and changes needed for faster pace of development have also been suggested.

The document is a timely addition to the microfinance sector in the state. It provides a perspective and a destination - the year 2012. I urge all the MF practitioners and institutions in the sector to adopt the document in their planning and implementation processes so that we can accelerate the growth of microfinance in Madhya Pradesh in the years to come.

I am particularly impressed by the consultative process employed for developing this document. I commend Access Development Services, Friends of Womens World Banking and the author N.Srinivasan for taking up this task and completing the same with due focus on quality and timelines. I have no hesitation to add that the State Government would lend all the necessary support to all stakeholders to facilitate realization of this vision.

Sompal Shastri
Vice Chairman
State Planning Commission
Madhya Pradesh

Preface

This vision document is the result of contributions from many sources. The methodology followed was consultative, with a consultation workshop on 6 and 7 August, followed by individual interactions on 7 and 8 September with officials in Government, Banks and leaders in MFIs and NGOs. A feedback workshop on 20 September considered the initial draft of the document and its relevance in the context of the state. While there are several people who had contributed to this document, I make specific mention of the following (in the alphabetical order: Mr Bhargav, ACS, Mrs Buch, Mr Fastur, Mrs Rashmi Sharma, Mr Pravesh Sharma, Mr Syed Ali, Mr Kumar, Mr Sood, Mr ... (SLBC), Etc, etc. I am particularly grate to Shri Sompal, Vice Chairman of the MP State Planning Board for his critical comments and inputs that have enriched this document.

The opportunity to look at microfinance in a developing state and suggest strategies to accelerate its expansion is rare. I consider it a privilege to have been associated with making of this document. The staff of Access Development Services (especially Saurabh Baroi and Nishant Tirath) is to commended for their enthusiasm. I thank Access Development Services and FWWB for sponsoring this document. Hopefully this document is another small significant step in the long journey towards poverty reduction, vulnerability mitigation and financial inclusion in the State.

N. Srinivasan

Executive Summary

1. This is not a vision in the conventional sense, written up by a singular organisation with all its components and constituents working in unison. This is a shared vision that would be realised by several different stakeholders and service providers carrying out tasks and achieving goals in a coordinated manner at different levels and areas of action.

2. The vision

Ten million predominantly poor clients being served by a vibrant and sustainable microfinance sector in the state by the year 2012, achieving the goals of financial inclusion, improving access to finance for poor families and thereby opening livelihood opportunities supported by necessary linkages and capacity building. The access is for all services including savings, credit, insurance, old age pension and remittances for which there is a demand from the clients.

3. The task is large and all the stakeholders have major and critical roles to play. All the stakeholders have to scale up their level of operations, strike new partnerships and strengthen existing ones, invest in training and skill building of their staff as also the constituent clients and form a grand alliance of all those working in the sector to share ideas, best practices, lower costs and achieve excellence in quality of services.

4. New institutions in the form of MFIs, federations, facilitators and other service providers would be set up to realise this vision. An enabling positive environment must prevail in the state to make the smooth translation of the vision into reality. The state being the prime stakeholder has a significant role to play.

5. Savings services would be offered through the banks, SHG and other group mechanisms in view of the prevailing legal environment, which is likely to change (may not be for the better for expanding savings services through MFIs and MFOs).

The geographical coverage of the vision is to en-

sure uniformity and equity across districts. Twenty four districts that lag behind others in microfinance activities would be targeted through a variety of strategies to ensure that communities therein are access to financial services.

6. One significant and integral part of the vision is the bundling of livelihood activities, skills training and financial services that would provide the base for income generation. This is an issue of importance with the state government targeting creation of livelihood opportunities, using groups to link inputs and outputs to the respective markets to enable the poor enhance their incomes on a sustainable basis. The approach to setting up of federations of SHGs/JLGs would accordingly emphasise linkages and non-financial services in a professional manner.

7. Mitigation of risks especially that of life, health and natural calamities is an essential requirement. Products that could reduce risks and manage them through a combination of savings based liquidity smoothing, emergency credit and insurance should be designed. Delivery of customised insurance products to clients through MFIs, banks and facilitator network should be prioritised by the insurance companies.

8. Remittance services are a vital need of areas which face significant out migration. With the post office and bank network, reliable and efficient remittance services could be offered. The correspondent/facilitator model would be found useful by the banks in this. The processes have to be designed so that remittance system remains fool-proof

9. Funds for this huge task must be found. Soft funds for mobilising people, setting up and incubating new institutions, new systems and procedures in existing institutions, training of staff as also the clientele and investments in ICT are required. The resources for lending would also be needed which is not likely to be a constraint given the readiness of the banking system and large institutional players such as FWWB.

10. Strategies:

- Create a core committee at the state-level comprising, State government, RBI, NABARD and SIDBI to plan, strategise and drive the realisation of the vision in the state. A larger forum that could be periodically consulted may be thought of for microfinance initiatives in which the strategies could be finalised with involvement of all stakeholders. But the core committee on Microfinance should continuously monitor, review and advise all concerned on strategies and actions to be taken.
- Core Committee should have discussions with large banks, MFIs and NGOs in the State to individually identify their part in realisation of the vision and secure their commitment therefor.
- Take stock of the existing unlinked SHGs in the state, classify them and take decisions on which to link (class I), which to handhold before linking (class II) and which ones to discard (Class III). Based on this classification, prepare a time bound plan for linking the quality groups and strengthening the capacities of the class II groups with a view to link them within a six month period. These groups would require post - training follow-up till the bank linkage is established.
- Identify pockets of the state where microfinance is relatively less developed and prioritise them for rapid expansion. Persuade the NGOs in other districts and states to initiate operations in the priority areas. This is best done by bankers enrolling the willing organisations as facilitators and the state Government enrolling them as implementing partners for their programmes.
- Fix challenging targets for Banks, government departments and NGOs for the next five years. Set up a suitable mechanism for recognising good performance that would offer visibility to achievers. State and district level awards for high achievers with media coverage would create a competitive situation among the players in the field.
- Work with the training institutions in the state and the service providers for increasing the availability of job-ready personnel. This calls for designing microfinance curriculum, educational/training material, methods of delivery, practical training (internships) and placement procedures. Involvement of academic institutions would render the standardisation and certification of the educational course credible and acceptable to employers. A training consortium should be formed with all interested training institutions and professionals to provide an appropriate direction to the massive training effort needed.
- Devise a training plan for the field and branch personnel of banks and MFIs on integrating livelihood financing with microfinance. This is necessary to ensure that microfinance in the state is not merely about access, but about income generation and reduction of poverty.
- Identify the different livelihood opportunities available in different parts of the state that could be set up as value chain propositions. The producer to market linkages should be identified and as also ideas on how the microfinance clients could participate in the value chain. The necessary linkages for enabling clients to take up production, marketing and services around the value chain should be provided through federations of people's groups (such as CIGs) or through professional marketing organisations.
- Setting up of federations of SHGs and JLGs as higher level organisations that would bulk the volumes of inputs required and outputs produced needs encouragement. While professional support for running these entities is necessary, direct involvement of the State or Banks in running of these

should be avoided in order to ensure community ownership. The State could engage service providers to design the different models of federations, handhold them in the initial stages and streamline their operations.

- Grant funds are best used towards creating and incubating institutions, making available expert services to clients, training and capacity building and external linkages to groups and their federations. Use of grant funds as subsidies at individual client levels should be de-emphasised in view of their potential to distort the financial services market. Capital subsidies at group levels,

especially on the basis of good initial performance would not only incentivise groups but also ensure more efficient utilisation of funds provided for income generation.

- A state level platform for MFIs needs to be set up to evolve standards and codes of governance and market behaviour. This forum would facilitate self-monitoring and learning from each others experiences. This would help the MFIs to present their views and issues before other authorities such as Government, SIDBI, NABARD and RBI. Efforts should be made to position this platform as a state chapter of national microfinance networks such as Sa-Dhan.

11. The numbers (in millions)

	Now	2012	Assumptions	Credit flow
Population	65.6	73.4	Estimated on the basis off decadal growth rate of 24/1000	
No of families (5 per family)	13.12	14.69		
Number of poor (37.4%)	24.53	24.0	Assuming the poverty level would decline to 32.5% (1994-2000, reduction of 5% in BPL families)	
No of poor families (5 per family)	4.90	4.8		
No of financially excluded farmer families	4.26			
No of loan accounts under priority sector	2.62			
No of microfinance clients of banks -SHGs	0.12	0.57	Assuming that bank branches credit link at least one SHG every fortnight for next five years	Rs. 8550 million (@Rs 40000 per SHG)
No of microfinance clients of MFIs	0.01(SHG /JLGs)0.015 (Individuals)	0.15 0.38	Projections made by MFIs and an estimate for other MFIs not consulted as well new ones to be set up	Rs. 2280 Million

Vision Microfinance 2012 - Madhya Pradesh

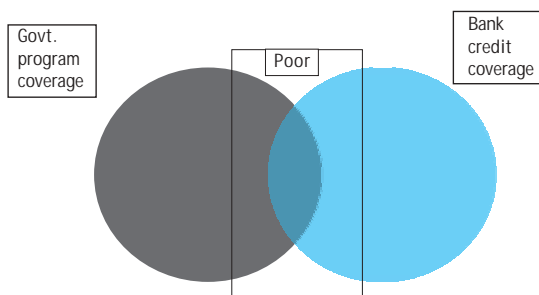
Madhya Pradesh occupies 9.7% of the total land area of the country, but has 5.82 % of the people. The population density at 196 persons per square kilometre is considerably less than the country average of 313 persons. Of its current population of 65.6 million (Mid year estimates for 2005¹) 74% were in the rural areas. It has a high concentration of tribal population which at 20.2% was the highest among Indian states. The combined SC/ST population was more than 35% of total population.

People living below poverty line constituted 37.4% of population with the proportion of poor being higher in urban areas (38.4%) than the rural areas (37%). The record of the state (including Chattisgarh) during the period 1994 to 2000 in poverty reduction has been good; with poverty ratio declining from 42.5 to 37.4%. However the proportion of poor was much higher in the state than the all India average of 26.1%. Going by the population of 65.6 million and the reported proportion of 37.4% poor, the state has to attend to the financial and livelihood requirements of 24.5 million people. But the proportion of poor does

not include those subject to transient poverty when natural and market risks affect their livelihoods. The people below poverty line and others marginally above it are the preferred clients of microfinance. These undeserved sections of people, especially women are the intended beneficiaries of the vision for microfinance in the State.

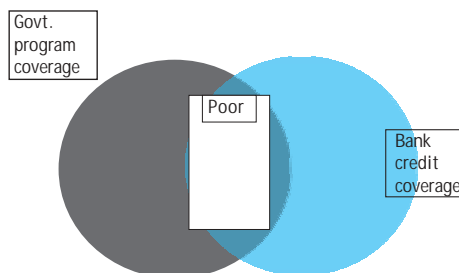
The theme of financial inclusion has been gaining ground over the last two years. Several studies and analyses have focussed on the problem of people who could not gain access to financial services, though they have a legitimate demand for the same. The committee on Financial Inclusion in its interim report has brought out that at least 4.26 million farmer households are excluded as per information available from the NSSO's survey. This does not include the non-cultivator households. As per the data available from the banking system in the state, as at the end of March 2007, 2.75 million priority sector advances accounts were with the banks². Of these, 2.62 million accounts were

Limited convergence between govt and financial sector - Present scenario



The existing coverage is less than the number of poor families. The efforts of banks and the government are not fully coordinated. The result is lack of convergence of efforts, with finance not accompanying services and services not available to those where finance is provided.

Vision when realised - future scenario- convergence and integration of all services



The vision envisages coordinated efforts where government and banks support the poor and expand the scale of operations to cover all the poor and others who are vulnerable. The poor would benefit from availability of services relating to livelihoods and finance from banks/ MFIs

that of economically weaker sections. If the number of households are estimated at around 13 million in the State, the number of credit accounts of weaker sections of people (discounting the fact that some households would have more than one loan account), is around 20%. Of the number of households below the poverty line around 5 million, those having access to credit at the end of March 2007 are about 57%. This leaves a large number of poor households outside financial services coverage.

The best estimates of coverage under microfinance is around 2 million people through (non-govt programme) SHGs, 0.5 million people through MFIs. Even with the increase in number of poor in absolute terms over the next five years, it is possible to cover every BPL family in some microfinance programme or other provided the government programmes establish the financial linkages with financial system whether banks or MFIs.

Size of the task

The existing number of people covered by the financial institutions (banks and to a very small extent by MFIs) as already indicated is about 2.62 million accounts. The available clientele with a potential demand for financial services is about 10 million households of which about 2.5 million would be the poor households. Coverage of all the uncovered poor households would call for significant effort by banks and MFIs. The task of inclusion requires expansion of number of accounts almost four times from the present level. Coverage of all poor households calls for a doubling of loan accounts from the present level and a large number of new accounts in the form of SHG and such group accounts.

Scope of the task

The task is not about merely making available credit to the clients. The vision when realised should ensure that the clients of microfinance have access to savings, credit, insurance (life and non-life), remittances and also pensions. The differing demands for services from the clients should be cost effectively met. This calls for linkages and partnerships with not only with banks, but also insurance companies and other service providers who could invest

in product design and development and evolve secure methods of operation across the distant locations in the State. The priority would be to introduce new clients to savings or credit or both the services in the initial stage and thereafter based on the demand other services offer the same. The agent/facilitator modes of operation would provide suitable channels of delivery of services.

The vision

An examination of issues in expanding the coverage of microfinance sector and the opportunities in the state lead to certain conclusions and a basis for looking into the future. The foregoing analysis brings out that 1) the tardy growth needs reversal, 2) there should be greater coordination of efforts of the different stakeholders 3) new and modified approaches as regards models and institutions should be adopted to ensure expanded coverage at reasonable costs 4) creation of livelihood opportunities should be an integral part of microfinance in order to reduce poverty 5) focus on enlarging the human resources pool and equipping them appropriate skills is an imperative and 6) the State has a large and significant role to play in influencing the other players to put in greater efforts.

The present rate of growth of the sector is not satisfactory compared to other states and the country as a whole. The players in the sector need to have a larger vision to achieve superior results over the next five years that bring in substantial numbers into the microfinance and livelihoods fold. The vision needs to be exciting to the potential clients and those who would work hard to realise it. After considering all factors and aspects through consultations the following vision statement is proposed:

Ten million predominantly poor clients being served by a vibrant and sustainable microfinance sector in the state by the year 2012, achieving financial inclusion, improving access to finance for poor families with integration of livelihood opportunities supported by necessary linkages and capacity building.

The vision of covering 10 million clients in five years is a challenging but not impossible one. The

growth rates achieved by the other states in the past clearly establish that this is achievable. The growth of coverage of SHGs by banks in the last five years (2003-07)³ has been 400% all over India, 800% in Maharashtra, 600% in Rajasthan, 550% each in Orissa and West Bengal and 460% in Madhya Pradesh. In the next five years the growth envisaged in the vision for Madhya Pradesh is 600% on a relatively modest base. The additional factors that would enable realisation of the vision are: the large market, the stakeholders' renewed focus on the sector, the emergence of MFOs and MFIs to supplement banking network and the roll-out of facilitator/correspondent model. In case of SHG bank linkage programme, the increased numbers are achievable through linking of as little as two SHGs per month per branch. In case of MFIs, the numbers are based on their business projections.

Institutional network

The branch network of banking system in the state consists of 3771 rural/semi-urban branches and 1026 urban branches and in all 4797 branches⁴. The average per branch number of loan accounts is about 573. Without increasing the number of branches if additional microfinance coverage is to be achieved in manner that would result in total financial inclusion, the per branch number of accounts would be about 2300, a four fold increase.

At the corporate level almost all the banks both in private and public sector have prioritised microfinance in some form or other. This not only gives them high visibility and good image in the society, but also enables client acquisition from a future perspective. At the operational level the commitment and understanding shown individual officials in key positions (say a regional manager or a branch manager) determine the pace of growth.

The cooperative structure has 5000 primary credit societies that could link self-help groups and also act as facilitators for all types of financial services. The Apex bank has a goal of linking 50000 SHGs over the next five years though the three tier structure. Of all the different financial institutions only

cooperatives would find it possible to achieve a significant expansion of clientele without expanding physical infrastructure. The State Government and the Cooperative credit structure have taken up reform of credit cooperatives in earnest. A Memorandum of Understanding has been signed indicating the principles and direction of reform. The post-reform operations of cooperatives would be on professional lines with product and client diversification. A consolidation of primary credit cooperatives and an emphasis on viability would see greater focus on microfinance. The State Cooperative Land Development Bank also has indicated its inclination to finance Self Help Groups as part of its strategy of business expansion.

NGOs work as partners with government, NABARD and banking system. They work with potential clients and mobilise them into groups or for enrol them as direct customers. 55 NGOs are working as Self Help Promoting Institutions with NABARD. More NGOs are working with the State government. The present number of NGOs and the staff available with them may not be adequate to meet the requirements of growth envisioned for the sector. Since the NGOs normally have a small and compact foot print, more NGOs may be needed to be set up to undertake the financial services agenda. Emergence of new local NGOs should be encouraged to ensure that mobilisation of people is carried out faster with commitment. The new NGOs could emerge only with a supportive policy environment as also adequate funds support.

One of the concerns in the institutional arrangements is the lack of NGOs in certain parts of the state. The more marginalised and less endowed parts of the state also are less intensively served by NGOs. The lack of voluntary institutions in the resource poor districts of the state has to be remedied so that financial services could be expanded to include the poor and marginalised. While existing NGOs should be supported to expand their operations specifically in such areas, new NGOs should be encouraged to start operations in the state and incentivised for serving the resource poor areas. New NGOs should have strong local roots

³ See annexure 4 for the number of SHGs covered over the X plan period in select states

⁴ See Annexure 1 for details of branch network

and staff with a local feel. New NGOs would need mentoring and handholding in the initial period of their operations.

The number of SHGs under the different programmes and projects would be significantly high by the year 2012. The task of delivery of services including financial services would be greatly facilitated if community based organisations emerge to bulk the small volumes offered by a number of clients and deal with the same. Banks and the Government could deliver of either finance or grant funds through the intermediary organisation. Other services such as accounting, auditing, capacity building, linkage for input supply and marketing etc could all be delivered to the SHGs and individual members cost effectively. These institutions are normally called federations of SHGs. Such federations are already in existence in the state. The state government has promoted some of these federations in respect of groups under its programmes. Some federations have been incorporated as producer companies and others as cooperatives under the MACS Act. These federations are activity based and bring together SHGs that undertake similar activities around a commodity or product. The federations link marketing with production. More such federations are set to emerge and deserve to be encouraged.

With the large numbers envisaged, encouraging emergence of higher order organisations such as

the federations⁵ seem to be the best way of ensuring of effective delivery of services to SHG clients and continued handholding. The experience of federations in other states has to be considered while encouraging these organisations. They have the potential to make the SHGs sustainable and offer support as long as the groups need the same. Being institutions with a community base, they would outlast the project period and provide services to their constituents. But community based organisations perform well only when some critical conditions are fulfilled. They should be formed by the community in response to a felt need. The organisation should be owned by the members both in terms of governance and financial stake. They need to be handheld in the initial period especially in getting governance practices and business models right. The operations should be professionally managed through qualified and skilled staff. Soft funds to support formation, initial systems and managerial costs must be found. Further, assured funding from banks for all viable activities of the federations should be committed. A state level forum to provide a learning platform and information exchange for the federations is also a necessity.

MFI coverage

Information made available by eleven MFI/MFOs has been presented in the following table. Apart from these there are other organisations, especially cooperatives that intermediate in finance.

Name of MFI	2007 clientele	2012 plan	2007 loan o/s Rs mn	2012 target Rs mn
Vikas Samiti	245	28245	1.06	157.83
Yukti Samaj	2713	15073	nil	50.00
Pararth Samiti*	5425 SHG	30000	0.39	75.00
Lok Biradari*	3409	35266	4.97	254.98
Vama microfin	3825	17325	1.62	50.25
Sambhav SSO	48 SHG/JLG	54798	0.42	221.00
Sonata fin	..	100000	..	350.00
SKS	..	53000	..	300.00
MCM	2350	6500	25.21	99.21
KAS	2000	..	10.0	
Anupama education society	4000 SHG/JLG	17210	..	80.50
Total		357417		1638.77

* Savings product offered

⁵ See annexure 8 on the Approach to formation of federations

Besides the MFIs referred to in the table, seven cooperative MFIs have been offering financial services in the state. Two of these have indicated that they would have a loan portfolio of around Rs 600 million by the year 2012.

The coverage data reveals that the stage of development is preliminary and many MFIs are in the process of gaining the necessary experience before scaling up. They have to strategise business expansion keeping the view the emerging trend of federations and integration of livelihood finance with microfinance. Product development, skill building of staff and refinement of systems and procedures to adapt to the changes are necessary on the part of existing MFIs. Those offering savings services should examine compliance with existing legal framework and the changes in offering. During the consultation workshop, the MFIs had pointed out the need for equity funding, greater availability of loan funds from banks and financial institutions and capacity building support. They also expressed the need for developing the human resource pool and evolving a code of behaviour to ensure fair competition in the market place.

Legal and regulatory environment

The state has a forward looking legislation in the Mutually Aided Cooperatives Act. The legislation permits setting up cooperatives that would work as per true cooperative principles without government interference. For setting up microfinance institutions that are community owned this Act provides an ideal vehicle. However certain ambiguities have to be ironed out to enhance its effectiveness. Section 4 (2) of the Act requires that 10 members from twenty different families have to join together to form such a cooperative. This appears to be a drafting error that should be corrected soon. The other implication of this clause is that only individuals can promote an independent cooperative. SHGs are not individuals and such if they want to form a Mutually Aided Cooperative Society (MACS), they need the intermediation of ten individuals. But even after that whether SHGs could become members of MACS is an issue to

be examined under the main cooperative law. The Money Lenders Act 1934 is in force and seeks to control usury and extortionate lending practices. However, its scope does not extend to loans by companies that are subject to audit by a chartered accountant. Hence MFIs set up whether as for profit or non-profit companies would not be subject to the provisions of the Money Lenders Act.

The proposed Microfinance bill would impact the entry and operations of microfinance organisations (defined as Cooperatives, trusts, societies -other than companies-) engaged in the business of microfinance, that is loans of up to Rs 50000 for any purpose other than housing and housing loans of up to Rs 150000. While those microfinance organisations limiting their business to only credit have a limited requirement of reporting periodic information to the regulator, others that offer thrift services would have to register with the regulatory authority - National Bank for Agriculture and Rural Development. There are certain infirmities⁶ in the proposed legislation which would hopefully be ironed out prior to passing of the bill.

With no significant space for savings mobilisation under the microfinance bill, the savings of the poor have to be handled as thrift for which the SHG methodology has to be followed by MFOs. In fact the Microfinance bill has made it compulsory on the part of Microfinance Organisations that want to mobilise thrift, to adopt the group methodology for intermediating in finance.

The apex development banks have their financing and grant making regulations that could hinder the emergence of new institutions. The financial support from SIDBI is available normally to institutions that are at least three years old. Exceptionally it finances institutions that are less than three years old if they are professionally managed. Similarly NABARD provides grant funds to NGOs that are three years old. In a state where considerable development work has to take place through emergence of a number of new institutions, such financing conditions would hamper the pace of growth. The apex banks should make exceptions to their conditions

⁶ Please see Annexure 5 for a note on Some Observations on the Proposed Microfinance Bill - by Girija Srinivasan and N.Srinivasan

taking local needs of Madhya Pradesh into account to ensure that the vision is realised.

Interest rate scenario

The state has a preference for a low interest rate across the sector, which is natural given its development mandate. It has a desire to bring down the rate of interest to SHGs and clients under the government programmes to around 7% per annum (declining balance) so the interest rates are on par with that prevailing for the agriculture sector in respect of crop loans.

On the other hand, the MFIs (barring MCM which reports low interest model on declining loan balance) charge between 15% flat and 19 % flat. Some MFIs also charge processing fees on short term loans which seem quite high. The rates charged by MFIs are generally seen to be high by the government. One of the viewpoints expressed is that MFIs should have a social mandate and community orientation; and the profits they make should be incidental. The profits that MFIs make should be enough to keep them in business and interested in expansion.

Interest rates that attract adverse attention of public authorities and people's representatives are harmful for the growth of the sector. But then interest pricing must cover costs of the institutions and ensure enough of surplus to plough back to ensure sustainability of the institutions and their future growth. There is recognition of the need for higher interest rates in microfinance⁷. A voluntary code of conduct in interest pricing and market behaviour is necessary. In the last Sa-Dhan annual policy conference, a code was adopted by member MFIs. The MFIs in the state need to adopt the same without exception.

Human resources

The biggest challenge in deepening and widening the microfinance sector in the state would be that

of finding quality human resources. While the available and experienced professionals have managed to achieve the level of penetration existing today they would not be adequate for the scaling up effort. Whether the widening effort would be taken up through mobilisation of people in to groups or through acquiring individual clients, field staff would required at the level of NGOs, MFIs, state government and the banks. Apart from field staff, middle management staff that would supervise, train and build capacities of field staff would be critical as they would have to assure quality and adherence to timelines. At the senior levels, especially of MFIs skilled professionals in financial management, credit portfolio management, product development and diversification etc would be needed. The NGOs would need to increase their staff strength and equip them with necessary skills as also the attitudes to serve in the resource poor regions of the state.

In the case of banks also the staffing issues need to be dealt with. The last voluntary retirement scheme implemented by Public Sector Banks some years back has drastically reduced the staff availability in rural branches. Expanding outreach with reduced staff strength would be a difficult task. Microfinance portfolios are intensive in terms of human interface. The massive expansion envisaged would require banks to invest in additional staff or outsource the non-critical tasks in client acquisition and service. The facilitator and correspondent models provide the necessary instruments for banks to leverage their expert staff and utilise external service providers.

Training and capacity building

As described in an earlier paragraph, bringing in a number of professionals to work in the sector is one of the necessary, but not sufficient conditions for realising the vision. While the required number of personnel could be found, making them job-ready is a major task. While training institu-

⁷ "Interest rates in the micro-finance sector have to be significantly higher than in the banking sector reflecting the much higher cost of doing business. This sometimes attracts criticism but they still remain much lower than rates charged by money lender and therefore provide competition to money lenders. There have been incidents of state governments imposing restrictions on microfinance institutions in a manner which does not appreciate the ground realities. Such excessive regulation can prevent the development of a healthy and competitive micro-finance sector which could compete with usurious money lenders." Planning Commission - approach to XI plan.

tions and service providers are operating in the state, their capacities would have to be scaled up considerably in order to meet the burgeoning demand for skill building. The expected number of personnel required in the sector is hard to estimate, given the different models and staffing practices adopted by the players in the sector. However at the minimum, doubling of the present strength seems a safe estimate. But the period within which the additional staff should be made industry-ready would be rather short on account of the enormity of task to be completed in five years. This would call for improving the existing training facilities; designing courses for quick absorption of new personnel, creating a cadre of trainers, devising non-conventional methods of training and setting up a network that would facilitate unify the curriculum and lower costs of capacity building.

Training of SHG leaders, members and skill building of SHGs in livelihood activities are an important of the effort as they form the foundation of the entire microfinance edifice. The effort is more in designing material that fits with best principles of adult education and usage of non-formal methods and making practice a large part of skill building. An issue brought out in the stakeholders meeting was the training of bank staff both on attitudinal and skill aspects.

Use of Technology

Information and Communication technology would play a key role in enabling the realisation of the vision. The challenges of achieving coverage of large numbers while keeping costs low and with minimal staff could be met with the use of technology. The aspects that technology applications could cover are client acquisition, origination of loan proposals, accounting and MIS, submission of reports and returns, transaction processing in the field and back office functions. The availability of hand-held devices which could be used in transactions between clients and the banks/MFIs would reduce the cost of transactions and accounting. Devices with biometric identification are being tested that could ensure the bonafide of the transactions and provide protection to the clients. As

for client acquisition the "know your client" norms could be parameterised into a software application which could then take decisions based on applications filed from remote locations. Needless to add that IT applications and hardware solutions must overcome the problems of unreliable electricity supply, low levels of literacy at client levels and the initial investment costs. The Financial Inclusion Technology Fund announced by the Union Finance Minister in the Budget 2007-08 would be able to provide support for application of ICT instruments and processes. The state must make good use of the fund for expanding the microfinance coverage.

Financial resources

The achievement of the vision would demand financial resources of two different kinds from the institutional point of view. The MFIs, banks and NGOs would need soft funds for expanding operations, setting up new institutional structures, recruitment of staff and capacity building, installations of operational systems and monitoring. The MFIs would also require loan funds from the formal financial system for meeting their business needs. The volume of credit flow to the sector during 2006-07 is of the order of Rs 435 Million from banks and estimated to be about Rs 70 million from the MFIs. The amount of outstanding loans could be in the range of Rs 50 millions in case of MFIs. The banking system has an exposure of Rs 235 millions to the SHGs. The low level of outstanding loans compared to the disbursements is on account to the short duration of the loans, which tend to get repaid fast, reducing the outstanding loan balance. If the expansion in linkage takes place as envisioned, the exposure would increase to Rs 2180 million in case of MFIs covering half a million clients, and Rs 28800 million in respect of 0.57 million SHGs in case of banks with an exposure of at an estimated average loan of Rs 40000 per SHG.

A rough estimate of grant funds required in the state is about Rs 308 crores over a five year period. This would be a shade less than 10% of the volume of credit expected to flow in the year 2012.

State support

The state government has a large role to play in the microfinance sector. The Planning Commission makes specific mention of the potential of microfinance and the need for using the same⁸. The State has several problems in reaching out to the poor and resource poor regions. The state has a larger proportion of poor than the all India average. The per capita income in the state is lower than national average. The state per capita income is about 62% of the national average in 2004-05 and is set to become less over the eleventh five year plan as per projections of Planning Commission. The lower rate of projected growth over the eleventh plan (7.6% projected by the state revised to 6.5% by the planning commission) compared to the all India growth rate of the economy (9%) and the higher growth rate of population in the state compared to the national average would increase the income divide between MP and other states. The increasing numbers of population and the lower incomes imply a larger agenda for microfinance. The state has access to resources and the right framework for democratically handling issues of development through the Panchayati Raj Institutions.

The state needs to support the voluntary sector, MFIs and banks in their task of improving financial services access to the poor and marginalised. The Planning Commission in its evaluation of one of the leading poverty reduction projects in the state had emphasised the need for involving NGOs and Community based organisations and PRIs in project implementation: *"The implementation delays arising out of limited organizational capacity can be avoided by delegating the responsibility of implementation to the NGOs and by constituting the ZPSCs and VDCs at the earliest"*⁹. The state's support is needed critically in five areas:

- first is the creation of a positive environment in which the different stakeholders

are able to collaborate and add value to each others work;

- Second is the establishment of partnerships with all the institutions in the field and provide them the necessary legitimacy to work in the sector.
- third is the financial and material support to ensure that the institutions in the field are in a position to meet the expenses of serving in a difficult environment;
- fourth is the linking of such efforts with the governments efforts through different programmes and projects such as MPDPIP, MPRLP, SGSY, Tejaswini, NREGS, etc;
- and the fifth is the provision of access to physical markets for the goods and services produced by the microfinance clients through initiatives such as Bhopal Marketing Fair.

The collaborative framework should ensure that the movement which is poised to takeoff is not distorted by excessive subsidies and other funds provided to select groups and clients. A comparison of the funds available as grant funds and the plans to bring in bank credit show that the grant funds could swamp parts of the sector. The state could decide as a policy that its subsidies would preferably flow to groups and less to individuals, that too to those which have shown a track record of financial responsibility so that the resources are put to most productive and objective oriented utilisation.

Another aspect of the collaboration between the State government and the MFI/MFOs is the management of expectations from each other. Governments in other states have taken stringent action against MFIs that were felt to be charging high rates of interest and using coercive recovery measures. Some of these actions were caused by a

⁸ "Micro-finance is another new development in which Indian institutions have acquired considerable expertise and where upscaling holds great promise to expand the nature of financial services offered to micro enterprises and also to make these the springboard for entrepreneurial development. The 11th Plan must ensure that our policies are sufficiently flexible to support the development of micro-finance". Planning commission- Approach to XI plan.

⁹ Evaluation Study of DPIP, MP - by PEO of Planning Commission, 2006

failure of communication and compounded politics of the situation. The State should make its expectations known clearly to the MFIs and provide them the necessary space to operate in the sector. The MFIs should also clearly indicate to the government their business models, methods of operation and basis of pricing of products so as to avoid misunderstanding at a later stage.

Projected coverage of vulnerable families over XI plan period by the State

Name of project/ prog	2012 target	Fund allocation Rs Million
DPIP	1212000	16000
SGSY	500000 SHGs of which 200000 would be linked	900
MPRLP	320000 families	2240
NREGS	1.5 Mn jobs (3500 lakh man days /year)	20000
Total	5.03 million people	39140

The soft funds required to realise the vision over the five year period is a minimum of Rs 3085 million. The funds are mainly required to promote new groups, strengthen some of the unlinked groups that have potential of developing into quality clients, setting up of federations and incubating new MFIs. The grant funds should go into creation of a sustainable rural financial architec-

ture which would serve the sector. 500 federations and 50 MFIs that could be supported would ensure that the poor clients are provided cost effective access to financial and other services. While the five year budget for the grant funds might seem high at Rs 3085 million, it is less than 10% of the total volume of bank finance that it will leverage. Further the soft spending per capita is hardly Rs 300 over a period of five years - i.e., Rs 60 per year per person - which is one of the lowest delivery costs in the hands of the donor.

Role of the banking system

The total number of SHGs linked by the banks in the state as on 31 March 2007 was of the order of 70000¹⁰. The SGSY groups linked by banks amounted to around 42000. Apart from this many small loans under the priority and non-priority sector have been extended by the banks. Banks have also issued General Credit Cards, Swarojgar credit cards and kisan credit cards. Further under the RBI's instructions no-frills accounts have been opened. But the bankers have to scale up their efforts to provide effective coverage to poor.

The following table contains the comparative position of number of groups linked at the end of each of the last three years in the states which were lagging behind the four southern states and were treated as priority states by NABARD for rapid scaling up of the programme. The table brings out the low level of effort in MP as regards the linkage programme.

SHG bank linkage programme - comparison of growth rates

State	2005	2006	2007	Growth % 2007 over 2005
Maharashtra	71146	131470	225856	217
Rajasthan	60006	98171	137837	130
U P	119648	161911	198587	66
W Bengal	92698	136251	181563	96
Orissa	123256	180896	234451	90
M P	45105	57125	70912	57
India	1618456	2238565	2924973	80

¹⁰ Please Annexure 2 for district wise details of the linkage programme

Against the all India growth rate of 80% in linkage of groups between 2005 and 2007 the performance of MP has been 57%. It has lagged behind the other states listed in terms of growth. Assam with 81454 groups and Bihar with 72339 groups as on 31 March 2007 have done a better job of linkage banking than Madhya Pradesh, which has been the beneficiary of large donor driven projects that have distinct microfinance component.

The present number of SHGs linked under the non-BPL and SGSY categories are at an average of 23 SHGs per branch; and if only semi-urban and rural branches are taken for the reckoning, the average is at 30 per branch. For a national programme that is more than ten years old, this number of groups linked per branch is negligible. The numbers translate to just three groups linked per branch per year.

The average hides the fact in some districts there is almost no progress. Eleven of the 48 districts have less than 500 SHGs credit linked across the district while 13 other districts have between 500 and 1000 SHGs linked. In a state with preponderance of poverty and marginalised sections of society this low level of linkage needs to be reversed. The coverage should be both intensive and extensive. For this a well designed strategy is called for.

The state has several thousand groups promoted by government and under government programmes. Regional office of NABARD at Bhopal has estimated that about 250000 SHGs formed in the state remain unlinked. Some of these groups are a few years old. In the absence of continued monitoring and backstopping there is no information on how many of these SHGs are still functional. Without funding, the promoters of these groups have also not been keeping in touch with the groups. Anecdotal evidence cites that quite a few groups are functional. The government has provided opportunities to some of these groups in plantation mission, managing NREGS related work contracts, etc. But the government is aware that only about 30000 SHGs might actually be eligible for bank linkage.

In Maharashtra in a similar situation, Bankers, Government and NABARD came together to classify the

unlinked groups into three categories - i) those that could be readily linked, ii) those that could be linked with some training of the leaders and handholding and iii) those that do not have any characteristics of a group. Based on this classification, banks linked good groups and NABARD provided funds to NGOs for training the leaders of the SHGs that needed strengthening. The task of training was coordinated and monitored through district level taskforces comprising the district administration, Bankers, NGOs and NABARD. This yielded good results in Pune division where it was started with more than 25000 groups being linked in the five districts of the division in one year. A similar exercise of classification may be carried out followed by a strategy of training and handholding of weaker SHGs through the voluntary sector. Since the numbers of groups are large, funds must be found from the government, NABARD and others. This is essentially a short term strategy aimed at ensuring the earlier work done on formation of such a large number of SHGs does not entirely turn futile.

Over the long term, those engaged in group formation must ensure good quality groups. The animators and field functionaries who mobilise people into groups must be trained to rigorous standards so that groups do not flounder after formation and as a result get ignored by both the promoters and banks. Further there should be close coordination between those funding promotion of groups and the banks/MFIs that finance the groups. Without establishing a reliable and credible arrangement for linking the groups with finance and other services, group formation should not be undertaken.

New partners for forming quality groups should be brought in. Existing NGOs and MFIs that have the experience should be encouraged to expand their operations; alternatively they should be asked to support setting up new NGOs as SHPIs and provide the new institutions with the expertise necessary. The Banks should also engage their staff in the group promotion activities taking advantage of the NABARD scheme which provides grant support to banks functioning as SHPIs. Another option available under the NABARD window is that of 'Individual Rural Volunteer'. Banks can engage the

services of suitable local volunteers and utilise their services for group formation, linkage and continued handholding. In all these cases, initial training and skill building would hold the key to promotion of quality groups.

Deepening of the services by banks is another issue requiring attention. Of the 70000 groups linked as at the end of March 2007, only 37000 groups had outstanding loans with the banks. About 50% of the groups did not have any live loans from banks. The reasons for this high proportion of groups of poor not having a credit facility in spite of having established credit linkage has to be examined and suitable steps taken. Other issues that have to be addressed are the adequacy of loans, timeliness in sanction and disbursement, suitability of credit products and the ease of obtaining repeat loans.

As indicated elsewhere in the document, federations are likely to emerge as higher order organisations that would intermediate between SHGs and Banks. Banks have to design products and methods of dealing with federations both as facilitators and financial intermediaries.

Facilitator model

A significant development in the banking sector initiated by the Reserve Bank of India is the outsourcing of some of the client acquisition tasks in favour of NGOs, SHGs, MFIs and others. This move is expected to reduce delivery costs of services, strengthen quality services, reduce costs of the clients and facilitate financial inclusion. The facilitators with their greater field familiarity and presence would be able to serve the bank and the clients well. The government could make use of the facilitators to channel its deliverables to the rural communities under its programmes. Convergence of financial, social and market services around the facilitator would produce a win-win proposition for the stakeholders and the clients. It would strengthen government programme delivery.

The vision of microfinance for the state has large numbers. Without outsourcing a significant part of the tasks the banks would find it difficult to achieve linkages required within five years. Simi-

larly the government has to strike partnerships that would offer flexible, reliable and quality services, especially in linking finance and livelihoods appropriate for the clients. Generating ideas, converting them into opportunities and building skills among local community to convert opportunities into livelihood activities are some of the aspects of work in poverty alleviation that the facilitators could support.

State Bank of India has taken the initiative in Madhya Pradesh and has already appointed facilitators. They have also engaged the services of retired officials of the bank to carry out some of the tasks of monitoring the work of facilitators. The bank is also on the verge of introducing a pilot to partner the Post Office for delivering financial services in the rural areas.

NABARD has already initiated a pilot with Post Office to offer financial services to SHGs in two districts of Tamil Nadu. Similar experiments are expected to follow in other states including MP. Other similar initiatives would be necessary from other banks in order to meet the HR and network requirements for realising vision.

An emerging development is the RBI's willingness to legitimise operations of moneylenders and finance them for onlending to clients. A suggested legislation has also been placed for consideration of the State Governments. The State has to take note of this and factor it in the overall development strategy of microfinance.

Role of Apex institutions

Two apex development banks, NABARD and SIDBI that have a focus on expanding microfinance in the country have also identified the state for intensifying their efforts. NABARD has been the prime mover in the SHG bank linkage programme, where apart creating the policy framework, it has been undertaking promotional efforts and providing re-finance to banks. It has encouraged NGOs, banks, government and individuals to act as Self Help Promoting Institutions (SHPIs). SIDBI has taken the lead role in encouraging the emergence and expansion of Microfinance Institutions to supple-

ment the efforts of banks. It not only finances the MFIs for on-lending to the clients, but builds their capacities for improved outreach and efficiency. It has taken the lead role in incubating new MFIs, supporting the network of MFIs and has influenced policy debate. Compared to the initiatives taken and results achieved by these two apex institutions across the country, their performance in Madhya Pradesh has not been up to the full potential. As indicated earlier, the pace of growth and outreach achieved have been low. But the recent initiatives of both these institutions are likely to yield better results and expand the outreach significantly and in quick time. FWWB, the bulk lender has also been active in the state supporting many MFIs. It also has identified Madhya Pradesh as a priority state for its operations.

An expanding microfinance sector would demand loan funds as also equity for new and existing MFIs. Both NABARD and SIDBI have equity products for the MF sector. The banks should orient their policy towards states like MP and provide equity funding to MFIs and quasi-equity to other form of organisations. Other bulk lenders such as FWWB, RMK and commercial banks should also support MFIs with loan funds.

The apex institutions and bulk financiers have a critical role to play in realising the vision of covering 10 million people under microfinance. The promotional funds must be used to encourage more self groups being formed, support more MFIs to expand their operations; assist emergence of new MFIs, build capacities of human resources in the sector, create awareness in client population through financial literacy campaign and help establishment of codes of good governance to secure orderly growth. The estimated grant requirement of Rs 3085 million should be found between NABARD, SIDBI, State Government and other donors. NABARD should prioritise SHG formation and capacity building and SIDBI should focus on incubating new MFIs and scaling up of existing MFIs.

As explained elsewhere in this document the Apex Development banks should examine their regulations and norms for financial support and relax them to ensure that new institutions that emerge in such developing states qualify for funding with-

out having to wait for three years. Further a policy for encouraging and supporting higher order institutions of SHGs - such as federations- has to be finalised. Economic and business models of federations have to be prepared and made available to those who undertake forming of such institutions. The policy should also include the norms and methods of banks financing these federations.

The Apex Development banks should also create a positive environment for the players in the sector. They should motivate the institutions to perform and excel each other in deepening and widening microfinance activities. State level awards to recognise best performance as also significant contributions should be instituted as in some other states. An annual function to felicitate those with good performance and contributions in the field would raise the profile of the sector besides unleashing competitive spirit among the players.

Incubation and start up of new MFIs

Given the sparsely populated and remote locations in some parts of the state, banks may not be able to fully take up the task of bringing in new clients and servicing the entire needs of the new and existing clients. In order to ensure that remote populations are served near their habitats, more MFIs would need to come into existence. The new institutions should preferably have local roots and a commitment to serve the poor. The new operations would not emerge without support. They would require seed capital, loan funds and also some managerial cost support in the initial stages. Apart from financial support the MFIs would need initial handholding, grooming and incubation so that they are able to scale up within a short time in an appropriate manner. Microfinance Institutions with experience of working in the state such as Mahila Chetna Manch, service providers such as Microsave, Access Development Services, Reach India, etc., could be utilised to incubate new institutions. SIDBI would have a major role to play in the nurturing the MFIs in the state.

Listening to the clients

A sample study to under the demand side issues

was carried out¹¹ by professional staff of Access Development Services covering three districts and 79 clients. The important conclusions are that:

- MFIs have touched several first time clients - with as many as 70% clients having no credit access previously
- 84% of all clients have demanded product redesign in loan term, monthly instead of weekly repayment, flexible repayments, larger loan size, etc.
- Expectation of quicker loan processing and disbursement
- Collateral requirements were heavy - (contra-intuitive)
- Unmet demand for credit with at least 40% of sample stating that they knew of someone who could not access credit
- Inadequacy of credit with average loan requirement of Rs 22500 per family being well above the limits up to which loans were available from MFIs in the initial years

The study clearly reveals the efforts needed to deepen microfinance and meet demand side expectations, while attempting to widen the coverage. Product redesign and diversification and building greater client awareness on financial aspects of loans are necessary. Banks, MFIs and NGOs have to ensure that client feedback is obtained on a regular basis so as to keep their products relevant and friendly. Market surveys and product design strategies should become a part of the promotional work of the institutions.

Monitoring and review

There are several tasks to be carried by different stakeholders independently as well as in coordination. The Core committee (referred to earlier) should be in overall charge of realising the vision

and strategising the implementation of different actions needed. A larger forum comprising Government, Banks, NGOs and MFIs should meet periodically to monitor achievements and suggest measures to improve quality and pace of implementation. The task of monitoring should not only be at the State level. District level committees of Stakeholders' representatives should be set up so that monitoring can take place in a decentralised manner that could respond promptly to local issues.

The monitoring committee should also ensure that coordination issues among the stakeholders are sorted out.

Conclusion

There is no doubt that the vision would challenge all institutions. Realising the vision would call for significant mobilisation of resources by all the stakeholders. With so much natural and human assets within the state, it is difficult to justify the position of MP as the third poorest state in the country. It is well within the capacities of the financial institutions, voluntary sector and government to carry out fairly simple tasks on a large scale in a coordinated manner that would lead to realisation of the vision. Ultimately the poor should benefit in terms of improved income levels and livelihood opportunities. Microfinance and the institutions involved therein are instruments and vehicles of empowering the poor. Let us set ourselves this microfinance mission - one that would change the lives of the poor for the better forever.

¹¹ See annexure 6 for the study report

Annexure 1

Bank Branches in Madhya Pradesh as on 30 June 2007

Sr. No	NAME OF THE BANK	RURAL	SEMI URBAN	URBAN	TOTAL
1	Allahabad Bank	77	25	47	149
2	Andhra Bank	0	0	7	7
3	Bank of Baroda	18	15	33	66
4	Bank of India	140	50	53	243
5	Bank of Maharashtra	73	14	21	108
6	Canara Bank	7	7	29	43
7	Central Bank of India	199	96	64	359
8	Corporation Bank	0	1	10	11
9	Dena Bank	3	7	22	32
10	Indian Bank	1	0	8	9
11	Indian Overseas Bank	1	0	13	14
12	Oriental bank of Comm.	1	12	35	48
13	Punjab & Sind Bank	2	11	12	25
14	Punjab National Bank	71	40	54	165
15	Syndicate Bank	9	1	20	30
16	Uco Bank	43	11	43	97
17	Union Bank of India	70	35	52	157
18	United Bank of India	0	0	8	8
19	Vijaya Bank	0	0	6	6
	Total Comm Bank	715	325	537	1577
20	S.B. of Hyderabad	0	0	3	3
21	S.B. of Mysore	0	0	2	2
22	S.B. of Patiala	0	0	5	5
23	S.B. of Saurashtra	0	0	3	3
24	S.B. of Travancore	0	0	2	2
25	S.B.B. of Jaipur	0	1	7	8
26	State Bank of India	184	153	149	486
27	State Bank of Indore	118	121	107	346
	Total SBI Group	302	275	278	855

28	Bank of Rajasthan	0	6	16	22
29	Centurion Bank of Punjab	0	0	5	5
30	HDFC BANK	0	2	14	16
31	ICICI Bank	0	9	10	19
32	IDBI Bank Ltd.	0	7	12	19
33	IndusInd Bank Limited*	0	1	4	5
34	Ing Vysya Bank	0	0	2	2
35	Laxmi Vilas Bank Ltd.	0	0	1	1
36	The Federal Bank Ltd.	0	0	2	2
37	The J. & K. Bank	0	0	2	2
38	The Karur Vysya Bank Ltd.	0	0	1	1
39	UTI Bank Ltd	0	1	13	14
	Total Private Bank	0	26	82	108
	SUB TOTAL	1017	626	897	2540

Sr. No.	NAME OF THE BANK	RURAL	SEMI URBAN	URBAN	TOTAL
40	Chambal Gwlior RRB	26	23	12	61
41	Jhabua Dhar RRB	75	4	0	79
42	Madhyabharat RRB	150	44	14	208
43	Mahakaushal RRB	24	13	5	42
44	Narmada Malwa RRB	137	50	12	199
45	Ratlam Mandsaur RRB	20	14	6	40
46	Rewa Sidhi RRB	70	7	6	83
47	Satprua RRB	179	58	0	237
48	Sharda RRB	54	5	0	59
49	Vidisha Bhopal RRB	14	7	2	23
	SUB TOTAL	749	225	57	1031
50	M.P.Co-Operative Bank	320	471	65	856
51	M.P.S.A.R.D.B.	363	0	7	370
	SUB TOTAL	683	471	72	1226
	GRAND TOTAL	2449	1322	1026	4797

Annexure 2

SHG Bank linkage - comparative performance of districts in Madhya Pradesh (non-SGSY groups) - 2006-07

Sl. No.	Name of the District	Cumulative No. of SHGs provided with bank loan up to 31 March 2006	Cumulative bank loan disbursed up to 31 March 2006	Number of new SHGs provided with bank loan during 1 April 2006 - 31 March 2007	Bank loan disbursed to SHGs during 1 April 2006 to 31 March 2007	Cumulative No. of SHGs provided with bank loan up to 31 March 2007	Cumulative bank loan disbursed up to 31 March 2007
1	ANUPPUR	131	0.34	59	7.1	190	7.44
2	ASHOKNAGAR	313	6.7	149	32.93	462	39.63
3	BALAGHAT	379	46.95	540	256.65	919	303.6
4	BARWANI	679	29.81	413	199.19	1,092	229
5	BETUL	1666	28.89	369	183.34	2,035	212.23
6	BHIND	245	6.23	140	19.59	385	25.82
7	BHOPAL	267	8.41	39	5.85	306	14.26
8	BURHANPUR	374	9.09	96	44.35	470	53.44
9	CHATTARPUR	670	16.35	330	52.42	1,000	68.77
10	CHHINDWADA	1144	22.28	213	31.56	1,357	53.84
11	DAMOH	254	9.3	255	63.75	509	73.05
12	DATIA	558	14.22	83	40.57	641	54.79
13	DEWAS	2341	68.98	806	197.27	3,147	266.25
14	DHAR	5656	120.99	542	264.64	6,198	385.63
15	DINDORI	15	3.48	190	32.043	205	35.52
16	GUNA	1863	41.74	410	97.86	2,273	139.6
17	GWALIOR	1157	19.48	184	88.73	1,341	108.21
18	HARDA	256	8.99	48	8.37	304	17.36
19	HOSHANGABAD	1825	41.49	512	114.79	2,337	156.28
20	INDORE	2484	69.15	480	166.854	2,964	236
21	JABALPUR	2141	36.68	315	52.78	2,456	89.46
22	JHABUA	9443	214.66	606	284.32	10,049	498.98
23	KATNI	719	6.44	111	22.64	830	29.08

Sl. No.	Name of the District	Cumulative No. of SHGs provided with bank loan up to 31 March 2006	Cumulative bank loan disbursed up to 31 March 2006	Number of new SHGs provided with bank loan during 1 April 2006 - 31 March 2007	Bank loan disbursed to SHGs during 1 April 2006 to 31 March 2007	Cumulative No. of SHGs provided with bank loan up to 31 March 2007	Cumulative bank loan disbursed up to 31 March 2007
24	KHANDWA	2666	55.25	211	90.6	2,877	145.85
25	KHARGONE	1209	109.46	609	294.09	1,818	403.55
26	MANDLA	483	11.93	425	61.44	908	73.37
27	MANDSAUR	1566	95.04	493	245.71	2,059	340.75
28	MORENA	918	43.99	240	40.1	1,158	84.09
29	NARSINGHPUR	540	16.64	169	32.01	709	48.65
30	NEEMUCH	500	52.75	402	158.86	902	211.61
31	PANNA	372	8.27	207	30.635	579	38.91
32	RAISEN	306	2.16	297	63.74	603	65.9
33	RAJGARH	519	19.97	175	55.67	694	75.64
34	RATLAM	1254	41.13	534	105.66	1,788	146.79
35	REWA	299	25.06	191	83.43	490	108.49
36	SAGAR	837	18.07	548	173.23	1,385	191.3
37	SATNA	1883	33.44	211	38.05	2,094	71.49
38	SEHORE	693	25.8	263	30.47	956	56.27
39	SEONI	995	14.25	198	8.42	1,193	22.67
40	SHAHDOL	800	42.98	298	88.35	1,098	131.33
41	SHAJAPUR	926	30.32	308	116.48	1,234	146.8
42	SHEOPUR	128	6.23	3	0.75	131	6.98
43	SHIVPURI	939	44.49	207	51.75	1,146	96.24
44	SIDHI	91	17.83	26	9.8	117	27.63
45	TIKAMGARH	432	4.8	231	109.35	663	114.15
46	UJJAIN	2160	40.2	412	70.35	2,572	110.55
47	UMARIA	201	9.37	49	18.25	250	27.62
48	VIDISHA	474	13.71	190	96.33	664	110.04
	District not specified by banks	1354	53.07			1,354	53.07
	Total	57125	1666.86	13787	4341.122	70912	6007.98

Annexure 3

SHG-Bank linkage – comparative performance of states 2006-07

State	No. of SHGs 31 March 2006	No. of new SHGs credit linked during 2006-07	Total No. of SHGs credit linked 31 March 2007	Bank Loan during 2006-07 Rs. million	Total bank loan up to 31 March 2007 Rs. million
Himachal Pradesh	22,920	4,879	27,799	388.27	1,252.25
Rajasthan	98,171	39,666	137,837	1,447.40	3,895.34
Haryana	4,867	1,966	6,833	183.31	499.32
Punjab	4,561	1,893	6,454	117.74	356.60
Jammu & Kashmir	2,354	405	2,759	44.25	144.73
New Delhi	224	112	336	8.65	27.23
Assam	56,449	25,005	81,454	794.40	2,218.38
Meghalaya	735	476	1,211	17.40	33.59
Tripura	1,996	910	2,906	18.40	49.52
Sikkim	127	33	160	1.12	2.98
Manipur	1,468	1,215	2,683	40.80	112.65
Arunachal Pradesh	346	101	447	5.72	19.21
Nagaland	422	576	998	33.50	67.88
Mizoram	974	921	1,895	70.56	134.70
Orissa	180,896	53,555	234,451	3,274.27	8,028.92
Bihar	46,221	26,118	72,339	960.28	2,012.47
Jharkhand	30,819	6,498	37,317	391.96	1,506.56
West Bengal	136,251	45,312	181,563	2,060.64	4,485.16
UT of A & N Islands	164	47	211	4.58	12.81
Madhya Pradesh	57,125	13,787	70,912	499.23	2,166.09
Chhatisgarh	31,291	10,412	41,703	218.44	556.25
Uttar Pradesh	161,911	36,676	198,587	1,778.48	6,932.02
Uttarakhand	17,588	3,939	21,527	382.69	1,274.55
Gujarat	34,160	9,412	43,572	885.46	2,129.97
Maharashtra	131,470	94,386	225,856	2,983.86	6,935.53
Goa	624	395	1,019	28.28	83.49
Andhra Pradesh	587,238	96,381	683,619	27,754.55	71,209.73
Karnataka	224,928	92,708	317,636	8,163.89	18,091.42
Kerala	86,988	30,925	117,913	2,889.40	7,710.88
Tamil Nadu	312,778	87,699	400,477	10,984.48	38,106.35
Pondicherry UT	2,499		2,499		350.86
GRAND TOTAL	2,238,565	686,408	2,924,973	66,431.99	180,407.42

Annexure 4

Performance of select states in SHG-Bank linkage and growth rates over X plan period
(Cumulative number of SHGs Linked at the end of each year)

State	2003	2004	2005	2006	2007	Growth % over X plan period
Maharashtra	28065	38535	71146	131470	225856	804
Rajasthan	22742	33846	60006	98171	137837	606
U P	53696	79210	119648	161911	198587	369
W Bengal	32647	51685	92698	136251	181563	556
Orissa	42272	77588	123256	180896	234451	554
M P	15271	27095	45105	57125	70912	464
India	717360	1079091	1618456	2238565	2924973	407

Annexure 5

Proposed MF bill – some observations¹²

The proposed Microfinance Bill that is before the parliament would impact the entry, continuance and operations of the microfinance organisations (MFOs). The bill would be applicable to organisations such as trusts and societies including cooperative societies. The bill does not cover companies involved in microfinance – either for profit or the non-profit ones. By not covering MFIs the bill remains incomplete and would not be in a position to fulfil its objective of “promotion, development and orderly growth of the micro finance sector in rural and urban areas for providing an enabling environment for ensuring universal access to integrated financial services, especially to women and certain disadvantaged sections of the people, and thereby securing prosperity of such areas and regulation of the micro finance organisations not being regulated by any law”.

RBI which is supposed to regulate the activities of MFI – NBFCs has already kept the non-deposit taking entities out of regulatory rigour. In case of MFOs only deposit taking entities would be subject to registration and close regulation and supervision (explained in detail later). This is on the premise that depositors need more protection. But there is limited appreciation of the fact that small borrowers could ill afford disruption to credit services. There is a clear logic to bring even lending institutions under greater regulation and supervision to ensure the tiny businesses and micro entrepreneurs do not fall victims to capricious conduct of lenders.

A point of note is the exclusion of thrift services from the definition of microfinance services. Further microfinance service is defined in terms of the quantum of money involved- transactions of a value up to Rs 50000 per client and Rs 150000 in case of housing loans (RBIs norms place the

ceiling on housing loans in microfinance in respect of NBFCs at Rs 125000).

The bill makes a fine distinction between savings and thrift. Under the bill thrift is defined as savings mobilised from groups by MFOs or savings mobilised by groups from their members using the group mechanism. The savings should not be in the form of current account or demand deposit. Thus thrift excludes voluntary withdrawable savings and refers to compulsory savings that group members make.

The bill has defined financial services to include provision of grants, guarantees as also in-kind contributions. On account of this the nature of its coverage has become sweeping and could bring under regulation even some types of donors that do not involve in microfinance except to provide grants of amounts less than Rs 50000 to eligible clients.

Further a number of urban credit societies operate in Maharashtra (Pathsansthas) which also mobilise savings and some of these societies have also linked SHGs. The bill exempts cooperative banks and those engaged in agricultural, industrial or trading operations. But the Primary Agricultural Cooperative Credit Societies (PACS) and urban credit societies (whether or not they engage in mobilising savings or providing loans of less than Rs 50000) are already subject to regulation by Registrar of Cooperative Societies as per the Cooperative Societies Act as also supervision by the Central Cooperative Bank to which the PACS is affiliated. Whether these should face a regulatory overlap is an issue that needs to be resolved.

Section 9 of the bill stipulates that only MFOs that undertake thrift activities need to register and that NABARD would register them subject to certain conditions. The registration does not mean

¹¹ N.Srinivasan and Girija Srinivasan

Authors are consultants in rural and development finance. Email - shrin54@yahoo.co.in

that MFOs would be able to mobilise all types of savings as earlier explained. One of the conditions for registration relates to the MFO having to maintain net worth of Rs 5 lakhs. Some of the PACs would not be able to gain registration as they may not be able to bring in net worth of Rs 5 lakhs. Further net worth has to be in the form of promoters' contributions or grants or donations received. In the case of cooperatives, equity is contributed by all members while the few promoters contribute a small part of the equity. Cooperatives build net worth through profitable working and transfer of surpluses. Net worth in cooperatives is not built through donations or grants. Hence opportunities for building net worth in the manner prescribed in Section of the 10 of the bill are rare for cooperatives.

The act would have an unintended consequence of barring the PACS from mobilising savings from its members as the permitted thrift services for registered MFOs is only that of SHG based savings mobilisation that are not withdrawable on demand.

The cooperative reform process that is underway would seek to accelerate the microfinance activities in the PACS. While the post reform business planning for Primary credit societies would concentrate on savings mobilisation, the registration and net worth requirements would slow down the process if not halt it altogether in some smaller units. NABARD would have to handle registration of about 100000 PACS in the country as all these would have thrift as a distinct business strategy.

The definition of cooperatives in Section 2(a) is too broad and inclusive. The bill should exclude Primary Agricultural Credit societies from its ambit to ensure that PACS are in a position to continue financial services to their members – including SHGs.

Audit by departmental auditors attached to Cooperation Department of the state in case of cooperative societies and by Chartered accountants in case of other entities has been stipulated, which seems adequate. The process of identification of chartered accountants (a prior approval by NABARD has been indicated) should be streamlined to ensure that accounts finalised and presented in time.

The vesting of powers with the regulator for directing stoppage of thrift services is in the interests of the savers. The move to prescribe formats for submission of annual financial statements is welcome as it would establish a consistent and uniform basis for reviewing the operational performance of MFOs. For the first time consolidated information on this sector is likely to be available on account of the MF bill. NABARD should introduce a web based information filing system which would capture data submitted by MFOs in remote locations, avoiding excessive movement of paper. This would facilitate online compilation and analysis of information.

The proposed Microfinance development council and the use of the microfinance development and equity fund for promotion of the sector would facilitate the MFOs and MFIs apart from SHG bank linkage programme. The representation to RBI, SIDBI, NABARD and NHB is welcome and would facilitate support to development of different streams of products in microfinance.

SHG Bank linkage programme run mainly by the banks, with the formation and nurturing activities being carried out by NGOs, has not faced any legal constraints. With this enabling provision, there should be no constraint for Cooperative banks and cooperative societies to link SHGs and provide financial services. However, in the case of SHGs the DCCBs would be in a position to accept the savings even after the passing of the Microfinance Bill. PACS would be able to accept savings from SHGs as members till the MF bill is passed; and once the bill is passed the position of PACS would be unclear on account of the regulatory overlap between the Cooperative Societies Act and Microfinance bill referred to earlier. The problems of cooperative societies are likely to be compounded by Section 32 of microfinance bill which states that the provisions of the bill override any other law.

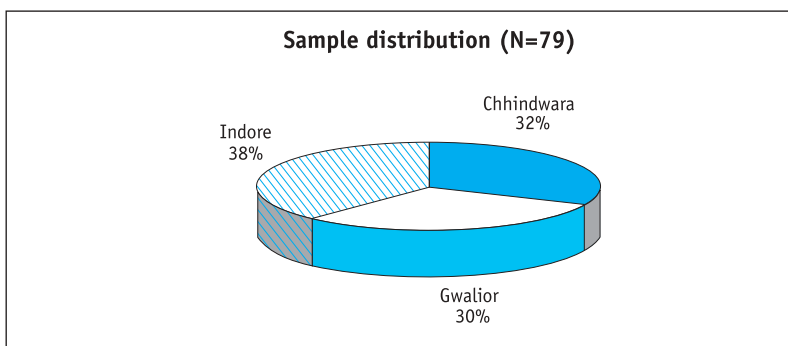
The provision for appointment of an Ombudsman for the sector is a step in the right direction. State level ombudsmen may also be required looking to the number of people covered and the likelihood of number of grievances arising.

Overall the bill is long on small detail, expansive on development agenda but short on regulation and supervision. It does not really facilitate expansion of savings services through MF sector even though studies and experience clearly show that savings services are in great demand. It compels the MFOs to adopt the group methodology for organising savings services through its emphasis on “thrift”, perhaps on account of lack of depositor protection to clients of MFOs. The regulatory effort is likely to be submerged under the volumes – if the cooperative societies mobilising members’ savings have to register with the regulator. The choice of NABARD as the sector regulator may require a review. An autonomous board with representation from RBI, NABARD, SIDBI, NHB, Ministry of finance and Ministry of rural development could have been vested with the function. The NBFC sector is left to the existing state of benign oversight of RBI that offers little space for deposit taking entities and ignores smaller entities that carry out lending. The NBFCs in microfinance should also be brought in to the same regulatory framework to ensure even-handed regulation that is consistent across institutions regardless of the legal form of organisation.

Annexure 6

Madhya Pradesh - Demand Side Issues Study

The survey was conducted with 79 households in 3 different districts



N	79
Households with MFI loans	77%
MFI loans not adequate (n=61)	56%
Households with borrowings prior to MFI loans	30%

- To get loans, members have to give collateral in the form of - 10% of loan amount (up front deduction to be settled at the end of the loan term), Agriculture land paper, Cheque Guarantee, Group collateral, House paper, Personal guarantee (by a government servant) and Ration card
- The response on improvements required in MFI services is as follows:

Improvements required in MFI services	%
N	84*
Flexible loan repayment	19%
Lower interest rate	15%
Longer loan repayment duration	14%
Declining interest	14%
Monthly repayment	14%
Higher loan amount	13%
Timely availability of loan	4%
Consequent loans	4%
Low penalty on default	2%

*Some clients gave more than one response

- The response on type of activities for which loan is required by the households, is as follows:

Activity	%
N = 78*	
Agriculture	13%
AH	4%
Trade	60%
Services	17%
Manufacturing	5%
House loan	1%

- * One household did not respond
- The average loan demand per household is Rs. 21,500
- As high as three-fourth households mentioned that they never tried to take loan for the activity before they borrowed from the MFI
- Details of the activities under each category are as follows:

Agriculture	10
AH	3
Trade	47
Bangle business	3
Cloth business	1
Fertilizer shop	1
Fruit and Vegetable Trade	7
General store	25
goat trade	3
Grain trade	1
Pan shop	1
Sari business	1
Scrap business	1
Steel shop	1
Sweet shop	1
Utensil shop	1
Services	13
Auto garage	1
Cycle repair shop	1
Dry clean	1
Electronic shop	1
Sewing machine repair	1
Tailoring	5
Tempo	3
Manufacturing	4
Agarbatti manufacture	1
Bidi work	1
Brick manufacture	1
Pottery and idol	1
House loan	1

Average amount required for the desired activities

Activity type	N	Average (Rs)
Overall	79	21,392
Agriculture	10	15,300
Animal Husbandry (dairy)	3	13,333
Trade	47	19,404
Services	14	30,714
Manufacturing	5	31,000

About 40% of the households said that they know somebody who needed a loan but could not get it from any source.

Annexure 7

Estimated disbursements under microfinance in MP

	Number existing	Average loan	Projected numbers 2012	Projected average loan	2007	Projected disbursement during 2012 (Rs lakhs)
SHGs	112000	38535	Rs 31000#	720000	0.4	288000
Individual clients	15000	33846	Rs3000	380000	0.06	22800
Total		79210				310800

pertains to Non-SGSY groups - of 70000 groups linked only 37000 groups had outstanding loans – average worked out on disbursements during the year 2006-07 for both old and new groups

Annexure 8

Estimate of Grant funds

SHGs promotion	Number	Cost per unit	total cost Rs Lakhs)
New groups	550000	3000#	16500
Strengthening\$	60000	1000	600
Federations^	500	2500000	12500
New MFIs &	50		
		2500000	1250
Total			30860

Based on present costs per group paid by NABARD to SHPI partners

^ Not more than two federations per block - There are 313 blocks and some blocks may not have potential for more than one.

\$ 30000 unlinked groups and 30000 more in the next five years estimated to require this support
& Average of one MFI per district envisaged

Annexure 9

Approach to Federations as higher order structures of SHGs Rationale

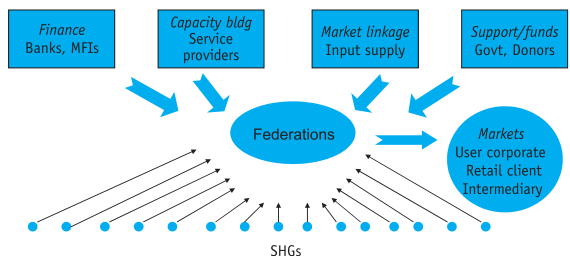
The large numbers of people that would be included in the financial services network have to be provided cost effective coverage. In addition they need support in initiating and pursuing livelihood opportunities. The sustainability of the groups that would be formed and their livelihood enterprises critically depend on the availability of continued services both financial and non-financial. The financial institutions and others normally engaged in providing these services do not have the necessary network and staff to cover the large number of additional clients envisaged.

New local structures that are owned by the clients could be most useful in ensuring that the services needed are delivered near the clients' location and in a cost effective manner. The experience of setting up federations of SHGs in Andhra Pradesh, Tamil Nadu and Karnataka has been positive and offers a way forward.

Structure

SHGs get together and form a federation as a higher level entity in which the SHGs are the constituents. The federation could take any legal form such as a company, trust, society or a cooperative. Most federations have gone the cooperative route or the producer company route. Representatives of SHGs through an election/selection process form the Board of governance and direct the operations of the federation. Andhra Pradesh has most federations of SHGs registered under the Mutually Aided Cooperatives Act. Madhya Pradesh has a similar Act for setting up independent cooperatives, which could be made use of.

Integrating finance and livelihoods – through federations



Operations

One of the issues that new federations have to address is the nature and content of their operations. Federations principally would provide non-financial services such as accounting, auditing, training of SHG members in livelihood skills, financial literacy, linkage of input supply, linkage with markets and standardisation of quality assurance of good and services produced by the SHGs. The federations could also take up promotion of new SHGs and act as facilitators for banks and MFIs. On financial services there is a difference of opinion on whether federations should take up the same. Financial management is a highly specialised job and without trained professionals it is not advisable to take up the same. Mobilisation of resources for on-lending to clients is likely to be difficult, on account of the lack of collateral with the federations in the initial stages. Further since the federations operate in a limited geographical area and are likely to be centred on the same activity, the covariant risk across the client population is high. It would be a better option for a federation to refrain from offering financial services on its own account. However there would be locations within the state where bank presence is very limited; in such locations the federation might have no option but to offer financial services to its members. In such cases, the necessary financial management expertise must be procured and appropriate systems established in the federations.

Conditions for success

The federations being community based institutions should be carefully incubated and nurtured in the initial stages. Some of the conditions for their success are

- Community ownership and oversight
- Professional staffing
- Initial incubation, capacity building and support
- Commitment from banks for funding
- Creation of a State level platform for the federations to pool their learning, problems and evolve common solutions
- Taking up financial intermediation role only where appropriate

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28 Hauz Khas Village New Delhi - 110 016
4, Nishant Colony
74 Bungalows, Bhopal - 462003
Tel. 0755 2577 105/106
www.microfinanceindia.org