

# Sakh se Vikas

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## Editorial

### Dear Readers

Welcome to second edition of Centre for microFinance (Sakh se Vikas) newsletter. The last quarter demonstrated a lot of activity at CmF as well as the entire sector in India which contributed their share in shaping the microFinance movement.

CmF organized the **5th microFinance Colloquium 2010**, which brought together participation from every stakeholder of SHG movement in Rajasthan. Chief Guest for the colloquium, Dr. C. Rangarajan, Chairman of Economic Advisory Council to Prime Minister delivered the key note address. '**Rajasthan Microfinance Report 2010**' was also inaugurated by

Dr. Rangarajan during the event.

In the larger sector, Central Government's National Rural Livelihoods Mission roll out is on the front burner, which will replace the existing SGSY scheme. **NRLM** is ambitious programme designed to embrace all poor into its ambit adopting the popular SHG vehicle. At this juncture, how the existing SHGs get addressed by NRLM remains a crucial question.

The quarter saw enactment of **Andhra Pradesh MFI Ordinance 2010 Act**, which has greatly affected the incessantly flourishing MFI industry. The intense media coverage of the AP episode also led the RBI setting up the

Malegaon Committee to look deeply in the operations of MFI and suggest regulatory framework.

The quarter also saw the release of the Status of microFinance 2009-10 report by NABARD which clearly indicated stagnation in SHG bank linkage in Rajasthan. It also reflected steady decline in the repayment by the SHGs.

In this year, there may be new challenges for the sector but with NRLM round the corner, stage is all set for rollout of strategies aimed at promotion of community institutions and rural livelihoods across country.

**Wish you all a Happy New Year.**

**Executive Director, CmF**

## Cover Story-Colloquium 2010

The 5<sup>th</sup> microFinance Colloquium 2010 was organized from October 4-6, 2010 at Jaipur. The theme of the colloquium was '**Financial Inclusion through community Based microfinance**'. The event was attended by all stakeholders of the sector.

Chief Guest Dr. C. Rangarajan, emphasized on the importance of SHGs and Federations in extending credit to the poor and also stressed on strengthening of existing financial institutions, enhancement of their roles and increased collaborations with government schemes for speeding financial inclusion.

He elaborated on **simplification of procedures of borrowing**, increased use of **BC/BF model** for increasing outreach to the low income group. **Orientation of bankers** in microfinance and **ICT** remain an inseparable part of the process. Top officials representing different Public and commercial banks present pledged their support in strengthening SHG bank linkage.

Another important highlight of the Colloquium was congregation of over 150 women from every corner of the state representing their SHGs and federations who

interacted with Shri. Bharat Singh Hon. Minister Rural Development and Panchayati Raj Rajasthan. The women vociferously expressed the difficulties of excessive documentation, pending loan application, attitude of bank officials which act as hurdles in the process of bank linkage. They also demanded more inputs from state for capacity building of their institutions and support in market linkages.

Please visit [www.cmfraj.org](http://www.cmfraj.org) for report, pictures of colloquium and Key note address.



# Research and knowledge dissemination



**Rajasthan Microfinance Report 2010**, was released during Colloquium by Dr. C. Rangarajan. The report presents current status of SHG movement in the state.

The report recommends that the SHG movement should reach out to all poor (not just BPL) including small and marginal farmers. It also suggests that all SHGs, irrespective of their promoting agencies should have uniform systems, processes, book-keeping, record-keeping, grading, auditing and quality standards. A need for strengthening SHG movement in Weaker Areas like Nagaur, Dholpur, Dausa, Karouli, Barmer, Jodhpur, Pali, Jalaur, Alwar and Rajsamand has been identified. The report also pitches for

allocation of a certain percentage of priority sector lending target to SHG bank linkage. Moreover, need of hour is promoting 'area centric' federations of SHGs rather than 'promoter centric' federations.

**Study on loan defaults by SHGs**-Centre for microFinance also conducted another research study entitled '**Loan Default by SHG**' to probe into the probable causes of default by SHGs which has been one of the major reason cited by bankers for their hesitation in lending to SHGs. The initial revelations of this study are as follows:

1. The SHGs formed without proper process have defaulted more.
2. Major objectives of members of groups which

have defaulted was found to get subsidy and credit rather than savings and self help.

3. SHGs which do not get adequate capacity building inputs have defaulted.
4. The defaulting groups were not found to be maintaining proper records, or engaging in regular savings and interloaning.

Please visit [www.cmfraj.org](http://www.cmfraj.org) for detailed study reports.

The experiences of SSV were also culminated in form of two publications, '**Adhaar**', a resource book for strengthening Formation and Management processes of SHGs and '**Saksham**' a manual for training of SHGs. "**Adhaar**" was launched by Hon'ble MoS for RD&PR.

## Policy Interventions- NRLM, SWABHIMAAN

Ministry of Rural Development, Gol has restructured the Swarna-jayanti Gram Swarozgar Yojana (SGSY) scheme as **National Rural Livelihoods Mission (NRLM)**. NRLM is most likely to be launched across India on April 1, 2011. The mission imbibes universal financial inclusion and social mobilization as the core features. The mission plans to extend coverage to poor families in a phased manner in which 1/3<sup>rd</sup> of the blocks will be covered in the

first year and so on. The mission also emphasizes on the promotion of institutions and setting up of federations at village and higher levels. It also speaks of strengthening of existing institutions, promotion of livelihoods and producer collectives. One of the prime focuses of the mission will be capacity building and work extensively for financial inclusion on both demand and supply side. This mission will have strong impact on the SHG movement

especially for the existing SHGs, role of NGOs and role of banks.

**SWABHIMAAN**- is a special campaign for financial inclusion by Gol and Indian Banks Association. It aims to provide basic banking services to 73,000 unbanked villages with over 2000 population by March 2012. The unique features includes employment of business correspondents and ICT for easy access to savings and credit, remittance,

microinsurance and micro-pension products. This definitely brings hope for improving SHG-Bank linkage. SHGs and federations also have opportunity of playing the larger role of BC and extending banking services to these villages. Opening of targeted 5 Crore rural bank accounts is laudable but care should be taken that these accounts do not meet with the same fate as the earlier no frills accounts (remained non operational).

## Events and Happenings

**Management Development Program** on promoting federations was organized from 5<sup>th</sup> of January 2011 by CmF. The programme focused on need of formation of federations, clarity on technical processes involved in promoting and strengthening federations.

The MDP was organized for representatives of Mitigating Poverty in Western Rajasthan (MPOWER), RMoL, Department of Women and Child Development and prospective partners of Saksh se Vikas. A total of 17 representatives participated in the 4 day programme, which included

classroom sessions and visit to a federation at Alwar and interaction with the federation leaders.

**NABARD** organized a one day divisional workshop on 28th December 2010 to review the broad issues related to SHG Bank Linkage. During the meeting NABARD informed

that out of target of 50,000 SHG-bank linkages till March 2011, in the first 9 months only 9,700 SHGs have been linked to banks. Deliberations were held in depth to determine the causes for this, at the end of the meeting bankers present reiterated their commitment to meet the targets.

# Field Reports Addressing Livelihoods of Tribal Populations

**Maize Stabilization:** CmF initiated a pilot at Sagwara block of Dungarpur Rajasthan



for addressing food security of tribal communities through a Maize stabilization programme with support from Collectives for Integrated livelihoods Initiative (cini) of Sir Ratan Tata Trust (SRTT).

The pilot was initiated with 120 farmers across 4 villages. The input processes of the programme focused on development of improved package of practices and extension methods. The outputs of the pilot have been overwhelming with more than 100% improvement in yield of maize. In the next phase, CmF envisages to work with 3,000 farmers at Sagwada on maize stabilization. The initial surveys regarding this are being carried out.

**Ginger cultivation: Access Development Services** initiated a ginger cultivation

programme in Jhadol Block of Udaipur under SSV with financial support from SRTT. Ginger is a prominent cash crop of the area associated with high return. But poor agricultural practices and occurrence of Ginger-rot often leads to huge losses making it a high risk crop. ACCESS developed advanced package of practices (PoP) to support farmers for ginger cultivation. At present 440 farmers are involved in ginger cultivation using prescribed package of practices. To address the technical agricultural challenges and access to credit and market,

ACCESS also integrated 1,300 farmers across 48 villages into a producer company. The benefits of the adoption of improved PoP and existence of producer company are visible with two fold increase in production of Ginger and at least 46% increase in income of producers. ACCESS plans to increase ginger production by more than 100% and net income of 2,000 tribal families by 50% in the coming years.

## Face of the Quarter Interview with Prof. V.S. Vyas

**Q1. What are the implications of A.P. MFI Ordinance 2010 on microFinance sector as a whole?**

**Prof. Vyas:** It has both positive and negative implications. The positive implication is that it acts as a warning signal for MFIs to follow certain rules and standards. The negative signal is that the State has taken undue interest in working of organizations, which have commercial interest.

**Q2. Will A.P. MFI Ordinance 2010 have implications on Rajasthan microFinance sector?**

**Prof. Vyas:** Yes. It is going to have an impact all over the country, including Rajasthan. Sooner or later, some discipline has to be brought into system.

**Q3. MFIs had become favorites of Indian banks for debt funding. Recently, Crisil downgraded ratings of BSFL, Equitas, Spandana, Ujjivan**

**and Asmitha, citing low debt collections in A.P. What implications will downgrade have on Bank - MFI relationship?**

**Prof. Vyas:** Banks were lending to MFIs because micro-credit loans fall under 'Priority Sector Lending'. In order to fulfill their obligations, banks thought it's an easier route. But looking at MFIs and finding their recovery rates not encouraging, banks are now having different point of view. Moreover, the credit situation has been tight after RBI's policy; therefore, banks are not as generous to MFIs as they were in the past.

**Q4. What future do you see for SHG movement?**

Answer - A large percentage of Indian population has still not been covered. There is bright future for mF institutions as long as they try to reach out to poor. However, if they try to compete with other financial institutions, then they are no better or worse than NBFCs. It

depends upon whether they would like to have a niche for themselves or to compete. Community institutions are way to go.

**Q5. Please share your views about SHG pilot in Dungarpur, which was undertaken by Bank of Baroda, with support of CmF and other agencies.**

**Prof. Vyas:** We recognized at much earlier stage that if we were to succeed, it has to be 'Credit Plus'. We engaged NGOs, which had credibility and vision to reach out to poor. We also realized the importance of basic orientation of bankers. That's where CmF played an important role.

*"Objective of microfinance provider should be to reach out to poor, not to compete. Community based institutions have bright future"*



**Prof. V.S. Vyas, Member, Economic Advisory Council to Prime Minister**

# Microfinance Sector News

## Center for Microfinance

### Upcoming Events

- (1) Certificate Course on Microfinance Development and Management (Starting 16<sup>th</sup> May'11 and duration 4 months)
- (2) State Level Discussion on Loan Default Study (March'11)
- (3) Urban poor initiative- Skill development training of SHG members from Manoharpura Kacchi Basti (In progress)
- (4) SSV Partner meet (8-10 March'11)

We're on the Web!  
See us at:  
[www.cmfrac.org](http://www.cmfrac.org)

Andhra Pradesh Government enacted the AP MFI ordinance Act 2010 in the backdrop of relentless MFI suicides by farmer MFI clients. The Act stipulates that MFIs must register with district authority, keep complete records of clients, lend to SHG members only after prior approval from collector, and carry our collections at a common place. This has put brakes to the speedily expanding MFI industry and also affected the repayment rates adversely.

5 major MFIs have been downgraded in ratings by CRISIL. Owing to these developments, a commercial bank recently decided to reduce the loan facilities

extended to MFIs, and has sought repayment of loans ahead of the original due dates. This development highlights the additional potential risks to the liquidity and funding of MFIs in the near term.

Malegam committee recommendations will further affect the MFIs and the sector as a whole. Hopefully the recommendations of the committee will help in establishing fair practices within the MFIs. The committee in its precise approach however seems to impart certain symptomatic measures of improvement. It might have left unnoticed the root cause of the problem at macro level. It failed to

explore alternatives like SHG model and why despite owning them the poor take loans from MFIs? Why banks prefer to give loans to MFIs in spite of knowing their practice of charging usurious rates while, at the same time deny opening accounts of SHGs or credit to the poor.

The turmoil in the MFI industry is a consequence resulting from failure of the formal banking institutions to reach out to the poor.

Perhaps solution lies in treating the root cause i.e. strengthening of formal financial institutions and expanding their role in reaching out the poor.

## About Our Organization...

CmF believes that poor have the right to credit and other financial services like the other people. It is a challenge for all those who are working for/with poor to make micro-finance services available to

them on competitive terms.

### Our Vision

**"We strive for the timely availability of microfinance services on fair terms and**

**with dignity to help people enhance their livelihood"**  
We live by principle of 'availability of microfinance services on fair terms and with dignity to help poor in Rajasthan'



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**Sakh Se Vikas**

Sir Ratan Tata Trust