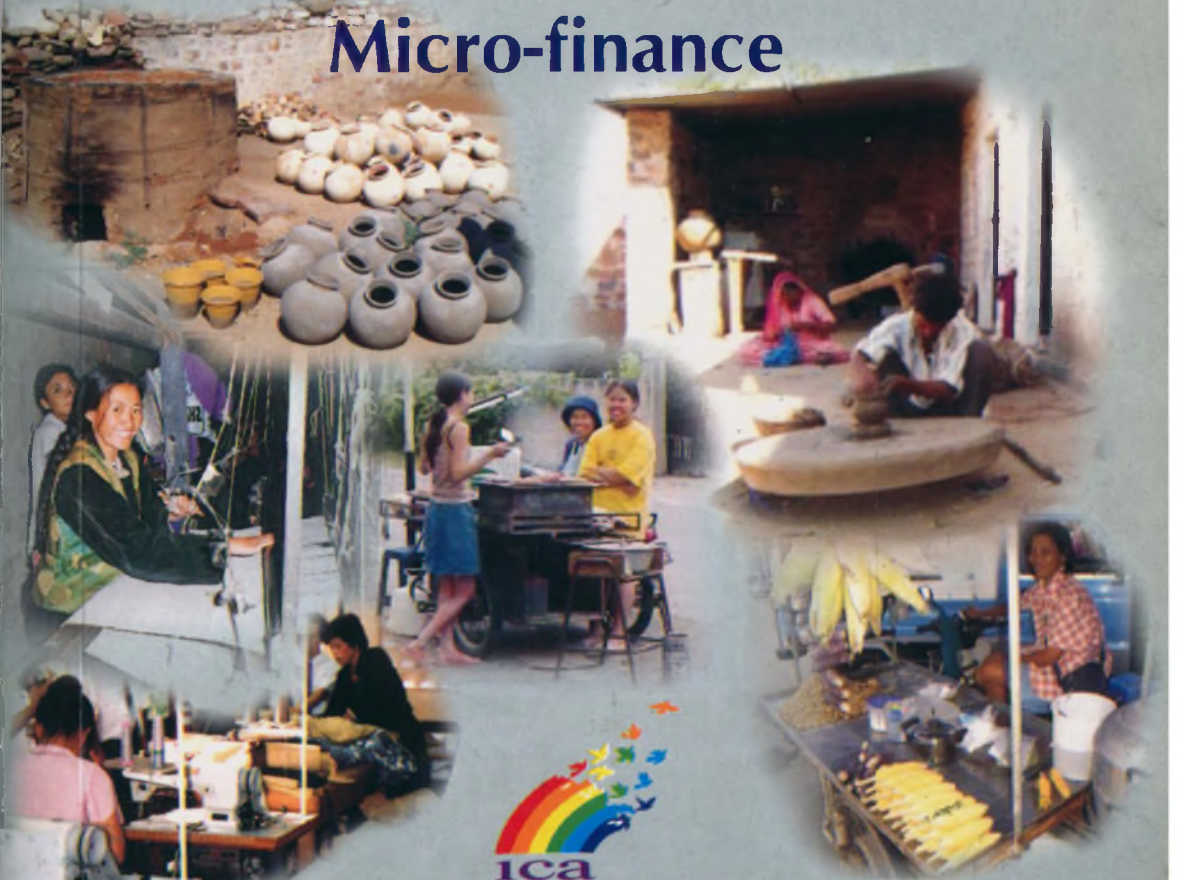




# Report & Recommendations of the Regional Workshop on Cooperatives and Micro-finance



**ica**  
**International Co-operative Alliance**  
**Asia Pacific**

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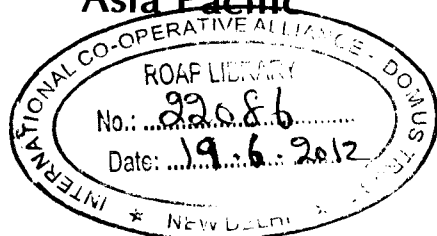
Goa, India: 18-20 October 2005

(Supported by ICA DOMUS TRUST)



ica

International Co-operative Alliance  
Asia Pacific



**Report & Recommendations of the  
Regional Workshop on Cooperatives  
and Micro-finance**

Goa, India : 18-20 October 2005

**International Co-operative Alliance – Asia & Pacific**

9, Aradhana Enclave, Sector-13,  
R.K. Puram, New Delhi - 110066

Telephone : (91-11) 26888250  
TeleFax : (91-11) 26888241  
E-mail : icaroap@vsnl.com

*World Headquarters:*

**International Co-operative Alliance**

15 Route des Morillons,  
CH-1218 Grand Saconnex  
Geneva, Switzerland.

Telephone : (41-22) 929-8888  
TeleFax : (41-22) 798-4122  
E-mail : ica@coop.org

ISBN : 81-89550-04-7

Price : INR 250.00

US\$ 10.00

(inclusive of postage & packing)

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## Foreword

**H**istorically, co-operative credit and banking institutions were established to provide financial services to the poor and low income groups. They aimed at reduction of poverty and elimination of high indebtedness among small farmers, landless agricultural labourers, craftsmen in urban and rural areas. Acknowledging institutional efficacy and organizational strength of cooperatives, Government adopted them as an instrument of economic development and thereby bringing them within the ambit of its direction and control in majority of the developing countries of the Asia-Pacific region. Although, such policy resulted into expansion and institutional spread of credit cooperatives from primary to tertiary level, its negative side effects emerged in the form of bureaucratic control leading to imposition of loaning policies on coops, increased non-performing assets (NPAs), high transaction cost, etc. Chained with Government direction and control, cooperatives in many of the developing countries of the region, have lost linkages with their basics and roots and the poor became alienated from credit cooperatives.

The credit cooperatives, therefore, have to return to their “basics and roots” by innovating and implementing pragmatic programmes to develop economic potentialities of the poor. Micro-finance based on self-help and mutual aid is one such innovative programmes. By internalizing micro-finance in their business policies and operations, cooperatives cannot only strengthen participation and inclusion of the poor in financial decision making, but also shall create social cohesion in the community they serve.

Viewed in the above backdrop, ICA Asia-Pacific, in collaboration with Afro-Asian Confederation of Credit Unions (ACCU), National Bank of Agriculture and Rural Development of India (NABARD) and Regional Co-operative Banking Association (RCBA) organized a Regional Workshop on “Co-operatives and Micro-Finance” to develop approaches for wider outreach and delivery of micro-finance through credit cooperatives. The financial support was provided by ICA Domus Trust. The workshop acquired an added significance in the context of commitment of global community to reduce 50% poverty by 2015 and theme “Micro Finance is a Business ! Cooperating Out of Poverty” of International Day of Co-operatives in the UN International Year of Micro Credit 2005.

The workshop objectively analysed the reasons of less involvement of credit cooperatives in micro-finance and brought out practical recommendations for evolving cooperative based micro-finance system in Asia-Pacific. We hope the recommendations will help cooperative leaders and policy makers in the Government to chalk out implementable strategy in this regard.

Mr. B.S. Vishwanathan, Chairman, Regional Co-operative Banking Association (RCBA) and Resource Persons deserve our heartiest appreciation for their valuable inputs in making the workshop a good success. Last but not the least, Mr. B.D. Sharma, Senior Consultant, ICA Domus Trust, who conceptualized and coordinated the workshop, and Mr. A.K. Taneja, Program Officer, for providing organizational support, also deserve appreciation for taking the entire process to logical conclusions and tangible outcomes for the benefit of cooperatives.

*7 March 2006*

**SHIL KWAN LEE**  
Regional Director  
ICA-A&P



**Opening Speech of  
Mr. B.S.Vishwanathan,  
Chairman, RCBA**

Friends,

At the outset may I extend heartiest greetings on behalf of Indian co-operative movement and also on behalf of ICA Regional Co-operative Banking Association for Asia and the Pacific to this important workshop. As you all know that the year 2005 has been declared as International Year of Micro-Credit to focus on the need for creating an enabling environment where the poorer sections will have smooth access to finance to develop their economic capabilities to face an all-round competitive environment. This acquires an added significance in view of the fact that poverty in most the countries of Asia Pacific region are endemic. The UN Millennium Development Goals visualize a global commitment to reduce poverty by 50% by the year 2015. Therefore it enjoins upon co-operators of the world to commit our actions and functional activities to make our contribution towards achievement of this goal. It was with this perspective that Regional Co-operative banking Association in its meeting held in December last year called upon Regional Office for Asia Pacific to convene this workshop. I must appreciate that ICA Regional Director Mr. Shil Kwan Lee positively responded to our request and included this event in its work plan and elicited collaboration of Asian Confederation of Credit Unions and National Bank for Agriculture and Rural Development of India to organize this workshop. I also appreciate these organizations along with ICA DOMUS TRUST to financially support this workshop.

Historically speaking, co-operatives emerged to provide financial services to the poor and low-income people. Whether it was Raiffeisen or Schulze Delitzsch model of Germany or Credit co-operatives of India they had their focus on the poor. "Mobilization of Thrift for Loan based on self help and mutual aid" was the mission of co-operatives. This underlined the importance of economic potential of the poor to help themselves by establishing their co-operatives. However, after independence from colonial rule in many countries of Asia and Pacific Region, co-operatives were adopted as an instrument of development and government took them under its wings, particularly the rural co-operatives. This resulted into introduction of Government directed co-operative financial system and the above mission of co-operatives was relegated into background. Another dimension of the influence of the Government on co-ops was enactment of rigid and restrictive co-operative laws stifling the co-operative leadership and alienation of the members from their co-operatives.

With the constant advocacy of co-operative movements and efforts of ICA in this region for creating an enabling environment for growth of member based and member controlled co-operative, although reform process in policy and legal framework co-operatives has been initiated in many countries, yet much remains to be done. Co-operative sector in many countries including India continues to be set with many constraints e.g. legislative and policy support, lack of resource availability, inefficient infrastructure, inadequate institutional system, members' apathy, official control, political interference etc. Despite these constraints co-operatives are accepted as a very effective institutional framework for supporting the poor. Even many NGOs who are involved in micro finance prefer to go for co-operatives at the institutional stage of Self Help Groups. Another positive strength of co-operative system is that they have a wide organizational network from primary to tertiary levels of national economy. For example in India we have more than 500,000 co-operatives of different kinds with their well established organizational structure at district and national level and thus they may pro-

vide a good support system for micro finance. However they have been reluctant to embrace micro finance in their activity portfolio. It is high time that co-operative financing system initiates pro-active steps to promote micro finance for the poor to remove poverty.

To me micro finance is an integrated concept. It is not mere mobilization of saving and providing loans. It should lead to unleashing of productive capacities of the beneficiaries to make them self-reliant. Thus of micro finance and development micro enterprises go hand in hand duly supported by micro insurance to provide social safety net to the poor.

In this workshop we have renowned experts and practitioners of micro finance. I am sure the workshop will be in a position to evolve workable model for co-operative based micro finance that will help co-operatives to operationally internalize micro-finance. We also hope that workshop will build and evolve approaches for wider outreach and acceptance of delivering micro finance through credit co-operatives. The resources – financial and human required to facilitate this outreach would be identified and the roles of various stakeholders to achieve the goal would be delineated.

With these words and hearty welcome to all of you, may I open this workshop.

**Report & Recommendations  
of the Regional Workshop  
on  
Cooperatives and Micro-finance**

Goa, India: 18-20 October 2005

**T**he Workshop was convened by ICA, Asia-Pacific, in collaboration with Asian Confederation of Credit Unions (ACCU) and National Bank for Agriculture and Rural Development (NABARD) of India. Twenty-eight practitioners of micro-finance and representatives of cooperative credit and banking sector of India, Nepal, Philippines, Sri Lanka, Thailand (Pakistan, joining at a concluding stage of the workshop) participated in the workshop. In addition, three international organizations, namely ABN Amro Bank, Asia-Pacific Rural and Agricultural Credit Association (APRACA) and ACCU also participated in the workshop.

The workshop reviewed the present status of financial cooperatives and identified policy changes needed in cooperative sector for integrating micro-finance models within the operations of financial cooperatives. Ultimate objective of the workshop was to evolve workable cooperative models of micro-finance.

Important components of the workshop were: - (a) discussions on important issues relating to micro-finance vis-à-vis cooperatives, and (b) inter-actions on best practices of micro-finance in cooperative sector of Asia-Pacific.

**Issues for Discussions:**

1. Cooperative Sector – changes required to operationally internalize concept of micro-finance.
2. Micro-finance and Self-Help Groups (SHGs) – concept, formation, linkages with banks and policy initiatives.
3. Micro-finance product designs, delivery systems and institutional support systems for sustainable micro-finance.
4. Developing cooperative micro-insurance system for the poor.

**Presentation of Best Practices in Micro-Finance in Cooperative Sector:**

1. Case studies of
  - India (SEWA)
  - Philippines (NATCCO)
  - Sri Lanka (SANASA)
2. Perspective of credit unions on Micro-Finance (ACCU)
3. SHGs – as cooperative within cooperatives (NABARD of India)

**Outputs:**

Based on intensive deliberations on the above referred issues and case studies, the workshop formulated workable recommendations on the following:

- (a) Cooperative based micro-finance.
- (b) Cooperative based micro-insurance.
- (c) Support services required for successful cooperative based micro-finance and micro-insurance programme.

Recommendations on these are as follows:

**A. Cooperative Based Micro-Finance System:**

- A.1 Conceptually speaking, micro-finance is inherent in cooperative financial system. Promotion of Thrift to gener-

ate credit for the needy persons through self-help and mutual aid is imbibed in the value system of financial cooperatives. Thus, cooperative based micro-finance is not debt based. It is based on recognition of the productive and bankable capacity of people, particularly poorer sections of the people.

- A.2 The workshop expressed its concern for that inspite of an important and significant role of financial cooperatives in providing banking and other related services like savings, insurance and a very wide network of such cooperatives from primary level to tertiary level, a large section of the poor – both in urban and rural areas have been left out of the fold of cooperative services.
- A.3 Drawing attention of cooperative movement, particularly financial cooperatives of Asia-Pacific Region towards the theme of International Cooperative Day in International year of Micro Credit “Micro-Finance is our Business ! Cooperating out of Poverty”, the workshop emphasized that “co-operative banking institutions will have to re-dedicate themselves and take upon them the task of serving the poor through banking services”.
- A.4 Strategy:
  - A.4.1 Financial Cooperatives should evolve a time bound strategy to increase micro-finance services to the poor.
  - A.4.2 Credit products and infrastructure of cooperatives should be suitably re-adapted to effectively meet the financial needs of the poor.
  - A.4.3 The existing base level primary saving and credit institutions should be motivated to form self-help groups with homogeneous membership ranging from 10 to 20 and linking them with the bank for financial services. Base level co-operatives should

also aggressively take up saving activity (deposit mobilization) to augment resources for on-lending to the SHGs, which, in turn, will provide the need based credit to the members on flexible terms without collaterals, both for consumption and productive purposes.

Co-operatives, under the proposed arrangement, of financing the SHGs will have the advantage of reducing their transaction cost, as also the normal risks of lending to the poor through the informal SHGs.

- A.4.4 Capacity building of the co-operatives in terms of infrastructure, human resource, knowledge and skill upgradation, procedure and practices, MIS wherever possible by adoption of appropriate technologies in the areas of information and communication, should receive priorities to provide the services in an efficient and effective manner.
- A.4.5 Equally important is capacity building measures of self-help groups and their members through appropriate training and educational modules, particularly in regard to decision making standard accounting practices, documentation, financial management, including internal control systems.
- A.4.6 Co-operatives, wherever necessary, may outsource the services of NGOs, MF institutions and other intermediaries to form the SHGs and to provide the services for capacity building of SHGs and their members. These intermediaries can also be the appropriate channel to route the credit to the SHGs for on-lending to their members.
- A.4.7 Experiences of successful Micro Finance models show that even the poor have the capacity to save and do save for future exigencies. This culture of thrift needs to be appropriately focused through

education, motivation and other means. Such savings on regular basis by the members would create wealth and augment the resources of co-operatives by the linkage practice for lending to the poor.

A.4.8 Co-operative banks may develop appropriate financial and service packages with a view to meet the needs of the poor in the SHGs adequately on the strength of their own saving, supplemented by borrowings from external sources.

## A.5 Support Services

A.5.1 Co-operatives do need support services and appropriate mechanism to access them keeping in view needs of members of SHGs and to protect their economic interests. The most important support measures would be to cover risk arising from death, accidents, natural calamities, old-age, illness, etc. Hybrid insurance products will have to be evolved and provided to the members of the SHGs at affordable cost to cover various risks and uncertainties. Such risk coverage and social security as an integral part of micro-finance may be provided either through co-operative insurance institutions or through tie-up with other insurance companies.

A.5.2 Co-operative banks may also need, at least at the initial stages, funding support either by way of loan or re-finance from development finance institutions like NABARD in India to augment the resources for micro-finance activities.

A.5.3 For capacity building, particularly in regard to HRD business planning and development, environment protection, technology adoption, etc. the existing training institutions, including those established by co-operatives, NGOs, micro-finance institutions, government agencies, etc. could be the major source



for training in various disciplines.

A.5.4 Wherever possible, government agencies responsible for implementing the poverty alleviation programmes could also be involved for providing needed services to the co-operatives, SHGs and its members.

A.5.5 Entrepreneurship development and skill upgradation need special focus for establishing micro-enterprises by the members of SHGs and this has to be organized and provided for by the co-operatives, either directly or through other intermediaries.

### **CO-OPERATIVE MICRO INSURANCE SYSTEM:**

B.1 The workshop observed that development in Micro finance and concept of SHGs (pre- cooperative) as viable units to do banking with, has opened a whole avenue for the insurance service providers. A vast section of the population in developing economies are potentially insurable now. However, the workshop felt that as in the case of credit, the persons having little propensity to save and become bankable proposition collectively, the introduction to Insurance for such sections of population will also be feasible only, if they are in groups and exhibit a strong co-operative character.

B.2 Important Factors: It is relatively easier to motivate the poor to come together, give them platform to put aside small amount regularly for their own future benefits and for taking loans to help them graduate from being poor to a surplus status. It is however much more difficult to make them aware of the need of Insurance and even more so to motivate them to actually give out some amount, however small, as premium. The philosophy and the mindset of a typical Asian poor is such that it would take some efforts in taking him out of destiny syndrome and take

steps to secure her/his future from uncertainties. This perhaps, is the second most important reason for such a low penetration of Insurance in this region. The first reason is the reluctance of Insurance Companies to see the vast majority of population as insurable proposition and their inability to design products to suit the specific requirements. While the Insurance Companies traditionally insured all large commercial business, provided policies for high network individuals etc., they could never visualize that assets of very small values of the poor are also precious for them and needed insurance cover. They have also not considered the fact that collectively these assets of the vast majority of the poor do amount to substantial insurable figures. Like large number of small loans, these are also lower risk propositions on account of the principle of risk being thinly spread out.

From the above observations, it can be inferred that:

- It is feasible to provide micro insurance to individuals in a group provided they exhibit strong co-operative character and group solidarity.
- Awareness of the need for Insurance and motivation to insure are the basic pre-requisites for the poor to be initiated to insurance.
- Designing insurance products to meet the specific requirements of the various target groups of the poor is another important factor.
- Prompt and timely payment of claim to the beneficiaries are important for creation of trust and confidence in the system.

### B.3 Micro-Insurance Process:

B.3.1 Micro Insurance Process should be gone through in stages by the co-operative micro insurance organizations & they should ensure that:

- The premium charged is affordable to the beneficiaries;
- The products should be simple enough to make the beneficiaries feel comfortable with;
- The beneficiaries could be divided into two groups; the first group consisting of members who pay less than a specific amount as premium and the second those who pay higher amount ; while both the group members are ultimately covered by a policy of Insurance Companies, the claim in respect of the first group are settled immediately without waiting for the insurance company to make the payment.

#### B.3.2 Role of Cooperative Micro Insurance (CMI) Intermediaries:

The CMI intermediaries should first develop informal mutual assurance system among the SHGs before going to become a full fledged agent of an Insurance Company. After gaining sufficient experience as an agency, both in life and general insurance and developing insights into structuring products specifically suited to the members of SHGs, the intermediary can then venture into taking up brokerage of Insurance products of the companies. The final stage of this Micro-insurance intermediary would be to transform itself into a full fledged insurance company or in an Insurance Co-operative with group insurance products for the poor as its specialization.

### B.4 Support Services

- B.4.1 M.I. Intermediary should develop a team of workers who are capable of creating awareness among the poor to the need of having a safety-net in their

life, motivate them to keep aside a small part of their earning regularly towards this safety net and also to convince them that insurance is a priority if they want to improve their life.

- B.4.2 M.I. should create a pool of expertise that is capable of understating the exact insurance need of the poor and develop products accordingly.
- B.4.3 In view of the different kinds of requirements of the poor in different geographical, ethnic and cultural segments, there should be enough flexibility in development of products to take care of their diverse needs.
- B.4.4 M.I. Intermediaries and Cooperative Insurance Companies should:
- bring together, actuaries who can specialize in the insurance products for the poor and innovate to create a system that would make these products cost effective.
  - Create a team of managers who can continuously train the field workers on the details, advantages of products that have been developed to sell these products to the members of the self-help groups. These managers will also have to put in place procedures that are simple and workable for products of this nature to be sold in very large numbers.
- B.4.5 If CMI Intermediary works as broker of an Insurance company, the latter should support the former in the development of support services as stated above.
- B.4.6 ICA may draw support of ICMIF to facilitate the development of Micro-Insurance for various regions of Asia-Pacific.

# **A Concept Note on Regional Workshop on Co-operatives and Micro-Finance**

(Concept, Contents, Methodology, Outputs)

## **CONTEXT**

Access to finance and financial services is an indispensable ingredient to reduce poverty. Poor people need easily accessible, trustworthy, sustainable and economically viable institutions to which they can entrust their savings, which offer loans at affordable conditions, and which provide a safety net through basic insurance services. Cooperatives have a long history of providing financial services to poor and low-income people. Cooperative banks and credit societies were initially established to reduce poverty and high indebtedness among small-scale farmers and craftsmen in urban and rural areas. Cooperatives continue to serve this mission today – often by providing affordable and equitable access to micro-finance services. Today, co-operatives exist and strive in every region of the world, and have been able to adapt to very different socio-economic environments.

Over a past few decades, Govt. adopted cooperatives, particularly credit and banking cooperatives, as an instrument of economic development in many developing countries of Asia-Pacific and thereby bringing them within the ambit of Govt. direction and control. Within this policy context, cooperative credit and banking institutions ac-

quired a good deal of expansion and institutional spread from grass-root to tertiary level.

Despite the success of cooperatives in many places, it is not rid of critical constraints in many of the developing countries, such as poor loan recovery, particularly in agricultural finance, high non-performing assets (NPA), meagre or even negative interest spread and high transaction costs reducing the overall profitability of the credit cooperatives as a group. Despite this delinquency, true micro-finance leaves a lot of hope for the cooperative sector. In fact for the ailing cooperatives it is about getting back to the roots & basics. Perhaps change is needed in credit cooperatives to look for or design cost effective (low transaction cost & risk averse) financial products. This however, comes with well-informed professional managements ability to design, build internal capacities including poor's ability in money management, saving approaches and enterprise planning. These are the essential building blocks for effective and sustainable cooperatively managed micro-finance.

**“Micro-finance is our Business! Co-operating out of Poverty”** thus becomes a fitting theme for the International Day of Cooperatives, in this United Nations International Year of Micro Credit.

Even the socially excluded/tribal dominated regions with traditional culture which has a preponderance of semi-autonomous and self-managing indigenous local institutions also provide a good scope for developing co-operatives and community based self-help groups (SHGs) for ushering a proper credit culture and serving as development tool for indigenous groups. Cooperatives are well placed to help poor people do this, especially in areas underserved by commercial banks.

Cooperatively managed micro-finance institutions enable the poor to pool their resources so that they can be used for productive investments and job creation. The social control and democratic management style of cooperatives generally secure savings and ensures repayment of loans. Cooperatives thus provide the poor with

appropriate financial solutions that enable them to collectively work themselves out of poverty. As such, cooperatives can strengthen the participation and inclusion of the poor in financial decision-making and management. At the same time, they can help create a social context that promotes high rates of loan repayment. Further, cooperatives being rooted in local communities and managed by local people, can take advantage of social capital in situations where financial capital is scarce

An overview of cooperative credit and banking sector in majority of the developing countries of the Asia-Pacific Region shows that while credit unions have achieved appreciable success in the sphere of micro-finance, other cooperatives, by and large, appear to be perhaps the last entrants in internalizing innovative micro-finance programme. Thus, it is high time to introduce such groundbreaking schemes to a larger area and dimension, as micro financing the employment generating activities for poor, downtrodden and underprivileged of the society is one of the prime concerns to improve their physical quality of life.

This **Regional Workshop on Cooperatives and micro-finance**, being organized by the International Cooperative Alliance in partnership with Asian Confederation of Credit Unions (ACCU) and National Bank for Agriculture and Rural Development (NABARD), aims at discussing important issues and facilitating a more inclusive financial sector for the poor. There is also need to deliberate upon the problems of the co-operative sector and also the potential of Self Help Groups (SHGs) as a micro-finance model for cooperatives to emanate as also the possibility of integrating other important inputs and financial services for the poor like micro insurance.

### **The Broad Contours of the Event and its Objectives**

The workshop will endeavour to build and evolve approaches for wider outreach and delivery of micro-finance through credit cooperatives. The resources – financial and human required to

facilitate this outreach would be identified and the roles of various stakeholders to achieve the goal would be delineated. The workshop will have following objectives:

- To review the present status of financial cooperatives and to take stock of the policy changes that are needed in the cooperative sector for integrating micro-finance models within their operations for assisting the poor.
- To understand and clarify the concepts of Micro-Finance and Self-Help Groups, especially with regard to the formation of SHGs, bank linkage, etc. and also appreciate the impact of micro-finance programmes on poverty alleviation.
- To facilitate the participants to interact with best practitioners of micro-finance in the cooperative sector from different countries.
- To explore the possibilities of integrating micro-finance with other social sector programmes and other risk mitigation mechanisms.
- To evolve workable cooperative models of micro-finance.

### **Programme Content**

There will be three important components of the content of the workshop:

- (a) Specific Issues for Discussions;
- (b) Presentation of case studies on best practices of cooperative-centric micro-finance, and
- (c) Group work to evolve workable cooperative model of micro-finance.

#### *A. Issues for Discussions:*

1. Cooperative Sector – changes required to operationally internalize concept of micro-finance.
2. Micro-finance and Self-Help Groups (SHGs) – concept, formation, linkages with banks and policy initiatives.



3. Micro-finance product designs, delivery systems and institutional support systems for sustainable micro-finance.
4. Developing cooperative micro-insurance system for the poor.

*B. Case Studies on Best Practices of Micro-Finance*

1. Case studies of:
  - India (SEWA)
  - Philippines (NATCCO)
  - Sri Lanka (SANASA)
2. Perspective of credit unions on Micro-Finance (ACCU)
3. SHGs – as cooperative within cooperatives (NABARD of India)

*C. Group Work:*

After presentations by resource persons on different subjects and country statements, the workshop will be divided into three groups as under to enable the participants to have focused and intensive deliberations:

- I. Developing workable Model of cooperative micro-finance system.
- II. Cooperative Micro-Insurance System.
- III. Support Systems for sustainable cooperative micro-finance.

However, the overall Programme shall be interactive in nature with lead presentations being made on best practice areas followed by interface and discussion.

**Participants**

The senior cooperators, officers from cooperative banks, development financial institutions, cooperative Department of the government, international experts engaged in the formulation and implementation micro-financing schemes and executing such schemes through co-operatives. The total number of the participants shall be around 30-40.

**Resource Persons**

To provide input support to the workshop, we will be inviting eminent resource persons from countries of Asia-Pacific region, who have proven expertise in micro-finance and micro-insurance, also from World Bank, Asian Development Bank, successful NGOs in the sphere of micro-finance.

**Tentative Schedule and Venue of the Programme**

Programme shall be organized from 18th to 20th October 2005. The venue of the workshop will be Goa-Bogmallo Beach Resort – 5-Star Deluxe Hotel, Goa, India.

**Output**

The workshop will draw a road map with broad contours on the role of cooperatives in operationally internalising micro-finance, including defining the role and responsibilities for each of the stakeholders involved in micro-finance. Specifically the outputs would be (a) Workable Model of Cooperative Micro-insurance; (b) Model for Cooperative Insurance, and (c) Support Systems for Micro-finance.

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**REPORT OF GROUP NO. 1**  
**ON**  
**Cooperative Micro-Finance System**  
**and support services**

Cooperatives were organised and established in the beginning of the last century in several countries of Asia-Pacific Region mainly to serve the poor and to mitigate the miseries of farmers and other economically weaker sections of the population. Many countries in the region are celebrating the centenary of the Cooperative Movement which started mostly as thrift and credit and credit societies. While the thrift and credit-cooperatives, which are also known as credit unions, and other cooperative banks with affiliated base level primary credit societies have played an important and significant role in providing banking services like savings and credit, a larger section of the poor including small and marginal farmers, agricultural labourers, rural artisans, etc. have not benefited from their services and are left out of the fold of banking services of the cooperatives. They have also not been able to bring the members into the banking fold and empower them with credit and other supportive services despite need and potential to develop them by providing livelihood opportunities.

Reaching out to the poor and improving their economic and living conditions have been a matter of concern for which the Governments in most of the developing countries in the region have launched various anti-poverty and poverty alleviation programmes in the past

with credit components from banking sector and other intermediaries including cooperatives. These programmes at best have been able to achieve limited success touching upon only the fringe of the problem of poverty. It is being increasingly realised that organising the poor, particularly the women, with access to savings, credit and other financial and non-financial services with safety net and social security is an indispensable component of the programme to reduce, if not eliminate, the poverty in countries where a sizeable portion of the population live below the poverty line. People still live in misery with no means of livelihood and productive assets despite capabilities, skills and entrepreneurship, though limited, due to environmental constraints including infrastructure, education, motivation, opportunities and access to banking services.

In the UN's International Year of Micro-Credit, in which ICA has also adopted "Micro-finance is business; cooperating out of poverty" as the theme of International Cooperative Day, Cooperative banking institutions will have to rededicate and take upon themselves the task of serving the poor through banking services as the social objective, in true spirit of Cooperation. Cooperatives have built up their infrastructure over the years from the apex to village level which is considered to be ideally suited to their philosophy of reaching out to the poor for alleviation of poverty. They have the capabilities, experience and the infrastructure which can suitably be structured to provide the banking services, particularly saving and credit products, by organising their members and women into Self-Help Groups. The experience of the last about two decades in the Asia-Pacific region has demonstrated the success of several Micro-finance models with linkage of the Self Help Group with cooperatives.

There are several successful models and experiences like those of:

- i) Bidar D.C.C. Bank (India)
- ii) Chandrapur D.C.C. (India)
- iii) SANASA (Sri Lanka)
- iv) NATCCO (Philippines)

v) NEFSCUN (Nepal)

which have been tested and implemented in the recent years by organising the SHGs with linkage for provision of savings, credit, insurance, social protection and other services. It is established that poor too are bankable and can save and discharge loan repayment obligation promptly.

Cooperatives are ideally suited to take up M.F. activities through SHGs with linkage programme targeting the poor, particularly women and bring them into the banking fold. This task of widening and deepening of MF now needs to be taken up by evolving an appropriate strategy in a time bound manner, so as to achieve 100% growth in the next three years, in providing micro-finance services to the poor in terms of both- number of persons and the amount.

To achieve this objective and the goal, cooperative banking institutions may involve, to the extent possible, the existing base level primary saving and credit institutions capable of forming SHGs with homogeneous membership ranging from 10 to 20 and linking them with the bank for financial services. Base level cooperatives should also take up saving activity to augment resources for on lending to the SHGs which, in turn, will provide the need based credit to the members on flexible terms without collaterals, both for consumption and productive purposes.

Cooperatives, under the proposed arrangement of financing SHGs, will have the advantage of reducing their transaction cost as also inherent risk of lending to the poor through the informal SHGs.

Capacity building of the cooperatives in terms of infrastructure, human resource development, knowledge and skill upgradation, procedure and practices, MIS wherever possible by adopting appropriate technologies in the areas of information and communications, should receive priorities to provide the services in an efficient and effective manner.

Equally important is capacity building measures of SHGs and its members through appropriate training and educational modules

particularly in regard to decision making, standard accounting practices, documentation, financial management including internal control systems.

Cooperatives, wherever necessary may outsource the services of NGOs, MF institutions and other intermediaries to form the SHGs and to provide the services for capacity building of SHGs and its members. These intermediaries can also be the appropriate channel to route the credit to the SHGs for on lending to their members.

It is known from the experiences of successful MF models that even the poor have the capacity to save and do save for future exigencies and this culture of thrift needs to be appropriately focussed through education, motivation and other means. Such savings on regular basis by the members would create wealth and augment the resources of the cooperatives by the linkage practice for lending to the poor.

Self reliance in the matter of resources through savings should be aimed at in order to meet the credit needs of the SHGs/members, thus reducing dependence on borrowings from other sources.

Cooperative banks may develop appropriate financial and service products with a view to meeting the needs of the poor in the self help groups adequately on the strength of their own savings and supplemented by borrowings from external sources.

### **Support Services**

- (i) Cooperatives do need support services and appropriate mechanism to access them, keeping in view needs of members of SHGs and to protect their economic interest. The most important support measure would be to cover risks arising from death, accidents, natural calamities, man made disasters, old age, illness, etc. Hybrid insurance products will have to be evolved and provided to the members of the SHGs at affordable costs to cover various risks and uncertainties. Such risk coverage and social security as an integral part of microfinance may be provided either through coop. insurance institutions or through tie-up with other insurance companies.

- (ii) Cooperative banks may also need, atleast at initial stages, funding support either by way of loan or refinance from development finance institutions like NABARD in India to augment resources for micro-finance activities.
- (iii) For capacity building, particularly in regard to H.R.D, business planning and development, environment protection, technology adoption, etc., the existing training institutions including those established by coops, NGOs, Micro-finance Institutions, Government agencies etc., could be the major source for training in various disciplines.
- (iv) Wherever possible, the government agencies responsible for implementing the poverty alleviation programmes could also be involved for providing the required services to the cooperatives, SHGs and its members.
- (v) Entrepreneurship development and skill upgradation need special focus for establishing micro enterprises by the members of SHGs and this has to be organised and provided for by the cooperatives either directly or through other intermediaries.

Globalised economy and emerging threats and challenges could be an opportunity for the cooperatives to demonstrate that there is space, large enough to serve the poor, through micro-finance innovations, so that, vulnerable sections of the society with limited means could protect themselves from market forces through the cooperative principle of mutual help. Empowerment of poor through Cooperatisation of micro-finance would be one answer to the global problem of poverty.

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**REPORT OF GROUP NO. 2**  
**ON**  
**Co-operative and Micro Insurance**

Development in Micro-finance and concept of SHGs (pre-cooperative) as viable units to do banking with, has opened a whole avenue for the insurance service providers.

The vast section of the population in developing economies are potentially insurable now.

As in the case of credit, the persons having little propensity to save and become bankable proposition, only collectively, the introduction to Insurance of such sectors will also be feasible only if they are in groups and exhibit a strong co-operative character.

It is relatively easier to motivate the poor to come together, give them platform to put aside small amount regularly for their own future benefits and for taking loans to help them graduate from being poor a surplus status. It is however much more difficult to make them aware on the need of Insurance and even more so to motivate them to actually give out some amount, however small as premium. The philosophy and the mindset of a typical Asian poor is such that it would take some efforts in taking him out of destiny syndrome and take steps to secure her/his future from uncertainties. This perhaps, is the second most important reason for such a low penetration of Insurance in this region. The first reason is, perhaps, the reluctance of Insurance Companies to see the vast majority of popu-



lation as insurable proposition and their inability to design products to suit the specific requirements. While the Insurance Companies traditionally insured all large commercial business, provided policies for high network individuals etc., they could never visualize that assets of very small values of the poor or also precious for them and needed insurance cover. They have also not considered the fact that collectively these assets of the vast majority of the poor do amount to substantial insurable figures. Like large number of small loans, these are also lower risk propositions on account of the principle of risk being thinly spread out.

From the above observations, we can infer that

- It is feasible to provide micro insurance to individuals in a group provided they exhibit strong co-operative character and group solidarity
- Awareness of the need for Insurance and motivation to insure are the basis pre-requisite for the poor to be initiated to insurance
- Designing insurance products to meet the specific requirements of the various target groups of the poor is another important factor
- Prompt and timely payment of claim to the beneficiaries are important for creation of trust and confidence in the system
- Micro Insurance Process should be gone through in stages by the co-operative micro insurance organizations and they should ensure
  - The premium charged is affordable to the beneficiaries
  - The products should be simple enough to make the beneficiaries feel comfortable with
  - The beneficiaries could be divided into two groups; the first group consisting of members who pay less than a specific amount as premium and the second those who pay higher amount; while both the group members are ultimately covered by a policy of Insurance Companies,

the claim in respect of the first group are settled immediately without waiting for the insurance company to make the payment.

- This process takes care of the fact that the need for the immediate health of the poorest when there is a law is greater than that of others
- In affect of the MI intermediaries will first develop informal mutual assurance system among the SHGs before going to become a full fledged agent of an Insurance Company. After gaining sufficient experience as an agency, both in life and general Insurance and developing insights into structuring products specifically suited to the members of SHGs, the intermediary can then venture into taking up brokerage of Insurance products of the companies. The final stage of this Micro-insurance intermediary would be to transform itself into a full fledged insurance company or in an Insurance Co-operative with group insurance products for the poor as its specialization. The specialization developed by this entity in order of priority would take into account the following:
  - It will develop a team of workers who are capable of creating awareness among the poor to the need of having a safety-net in their life, motivate them to keep aside a small part of their earning regularly towards this safety net and also to convince them that insurance is a priority if they want to improve their life.
  - To create a pull of expertise that is capable of understating the exact insurance need of the poor and develop products accordingly
  - In view of the different kinds of requirements of the poor in different geographical, ethnic and cultural segments, there should be enough flexibility in development of products to take care of their diverse needs

- Bringing together, actuaries who can specialize in the insurance products for the poor and innovate to create a system that would make these products cost effective,
  - Creation of team of managers who can continuously train the field workers on the details, advantages of products that have been developed in order for these field workers to sell these products to the members of their groups. These managers will also have to put in place procedures that are simple and workable for products of this nature to be sold in very large numbers.
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# **Cooperative Sector – Changes required to Operationally Internalize Concept of Micro-Finance**

**By BHAGWATI PRASAD  
Chief Executive  
National Cooperative Union of India**

## **Backdrop**

Functioning of the process of globalization in various countries of the world has revealed an increased socio-economic inequalities among various regions of a country as also among various classes of people. To bridge the widening gap in the socio-economic status of various classes of people, cooperatives have been recognized as the preferred mechanism for mitigating these increasing inequalities.

In India, Cooperative Credit Institutions have been disbursing a sizeable level of rural credit for financing various agriculture and rural development programmes, which have a direct impact on employment and income generation particularly for the weaker sections of society.

Cooperatives have helped in the development of Self-Help Groups which help the weaker section of society to get bank credit. This concept of micro-credit to help the poor people in meeting their critical needs including consumption needs is being promoted in various countries of the world including India.

In the mid 19th century, Raiffeisen and Schulze founded Cooperative Self Help Institutions of farmers and business people in Germany. These local cooperative banks which were very small in size accepted savings to be deposited and granted micro credit and considered as the first micro-finance institution in the world and they are still active in this field today. Amongst the most successful micro finance institutions worldwide are member-owned institutions like cooperative banks, saving and credit cooperatives and insurance cooperatives.

In the case of India, certain studies have revealed that micro-credit advanced through the mechanism of Self-Help Groups linked to bank credit is associated with higher level of loan recoveries and also helps small and marginal farmers in getting loans for their development activities and consumption needs. The micro-finance in India has been built upon the existing banking infrastructure. Required support of finance to the underprivileged sections of the society has always been in the focus of various programmes initiated by the governments since independence in India. As part of that focus, several subsidy linked credit programmes were initiated.

### **Micro-finance Operations**

- Micro-finance institution is an organization that offers financial services to low income population, who offer micro credit and only take back small amounts of savings from their own borrowers, not from the general public which has wide range of organization dedicated to providing these services, NGOs, Credit Unions, Cooperatives, Commercial Banks, Private Banks and Non-Bank financial institutions.
- Self-Help Group ( SHG) is a new concept in the micro finance sector, which are informal credit groups consisting of 10-15 members, mainly poor women, formed voluntarily and managed democratically, where members save a few rupees regularly and they lend amongst themselves, with repayment rates exceeding 90 percent.

- The typical micro-finance clients are low-income persons who do not have access to formal financial institutions, such as self-employed or households based entrepreneurs. In rural areas, clients are small farmers, marginal farmers and agricultural labourers marginal farmers and agricultural labourers and others who are engaged in small income generating activities like food processing, petty trade etc. Providing financing services to poor people is quite expensive, especially in relation to the size of the transaction involved.
- High Transaction costs results in high interest rates.
- Governments are tempted to use savings Banks, Development Banks, postal savings Banks, and agricultural Banks to more micro credit..
- Government can also get involved in micro-finance by concerning themselves with regulatory framework that impings on the ability of a wide range of financial agencies to offer financial services to the poor.
- Micro-finance methodologies may be classified into five group.

### **1. Grameen and Solidarity Model**

People form groups of three to eight persons on the condition that each of them would be assuming, responsibility for the lending and other financial operations for the other members of the group (Grameen Bank in Bangladesh).

### **2. The Group Approach**

The group approach delegates the entire financial process to the group rather than the financial institutions. Savings, loans, loan repayments are taken care of at the group level. Self-Help Groups-Bank linkage programme in India the PHBX project in Indonesia and the Chikola groups of K-REP in Kenya.

### **3. Individual Credit**

Credit given directly to the individuals also forms a part of the micro-finance technology. BRI-Unit Desa in Indonesia as well as priority sector lending by the regional rural banks and cooperative banks in India.

### **4. Community Banking**

This mode is to some extent an expansion of the group approach where the basic financial necessities of the poor especially the women are met through the community banking system. The community or village banks are organized with 30-50 members. A Prominent example of this type of micro-finance institution is the Village Bank of FINCA in Latin America.

### **5. Credit Unions And Cooperatives**

Credit unions and cooperatives are member-owned organizations providing credit and other financial services to their members. (SANASA of Sri Lanka).

#### **Cooperative Sector Operations**

- The cooperative credit institutions in India are providing both short-term and long term loans for financing various development projects and are advancing 43% of total rural credit. Certain studies have shown that the marginalized sections of rural society reflected by small and marginal farmers are not getting the benefits of loans for financing their development activities including consumption needs. The Common Minimum Programme of the present Govt. has emphasized the need for doubling the flow of rural credit in the next three years with special emphasis on loans for small and marginal farmers.
- In the context of globalization, cooperatives are well equipped to combine the advantage of local activities with regional and national network within the cooperative system and through

this process they can strengthen the financial position of their members along with those of local and regional economic structures in which they are operating.

- Cooperatives have a long history in providing financial services to poor and low-income people so as to reduce poverty and high indebtedness among small-scale farmers and craftsman in urban and rural areas.
- Cooperatively managed micro-finance institutions enable the poor to pool their resources so that they can be used for productive investment and job creation. The social control and democratic management style that is proper to cooperatives generally secure savings and ensures repayment of loans. Thus, the cooperatives provide the poor with appropriate financial solution that enable them to collectively work themselves out of poverty. Today, cooperatives exist and strive in every region of the world , and have been able to adapt to very different socio-economic environments.
- The National Cooperative Union of India (NCUI) is implementing a Central Sector Scheme for strengthening the cooperative movement through 50 Cooperative Education Field Projects located in cooperatively under-developed States/under developed areas of developed States. Under this scheme, office bearers and members of these field projects are facilitating the formation of SHGs to ensure micro-finance and ensure sustainable income generating activities for the members. These Self-help Groups are organized by Farm Guidance Instructors/ Cooperative Education Instructors/Lady Mobilisers of the various field projects. The members of Self-Help-Groups under this project are guided in undertaking income generating activities including inculcation of savings and thrift habits and facilitating the access of members of Self-Help Groups to banking Channels for getting Credit at a quicker pace. So far under this Scheme, 3197 Self-Help Groups with a membership of 40,975 have been formed. Under this Project all SHGs



are working well and members of these groups hold meetings regularly once a month to discuss their needs and repayment position. Loan recoveries under this programme have been 100%.

- The National Bank for Agriculture and Rural Development (NABARD) has undertaken certain initiatives to strengthen the flow of rural credit through the mechanism of micro-rural credit. NABARD started a pilot project in this regard in 1992 of linking around 500 SHGs with half a dozen banks across the country. Based on the success of this pilot project, NABARD has involved as on 31st March, 2003 over 31,000 rural outlets of more than 500 banks with a loan portfolio of more than Rs. 2000 crores. By March 2004, this pattern of formal banking system has reached the door steps of 16.7 million very poor households providing micro-credit to them. It has been observed that about 90% of Self-Help Groups linked with banking credit are exclusive women groups and the rate of on-time repayment of loans has been around 95%. Thus the pilot project which was started by NABARD in 1992 has turned into a National Movement linking more than one million self-help groups with bank credit and has facilitated socio-economic empowerment of weaker sections including women folk.
- Cooperative Banks in India have also started making forays into micro-finance sector. Amendments made by various States in their respective cooperative Societies Acts have enabled cooperative banks to take up the activity of promoting and nurturing of SHGs linked to bank credit. Many District Central Cooperative Banks have evinced keen interest in promoting such SHGs – Bank Linkage programme. The Union Agriculture Minister has recently (8th October, 2005) urged the cooperative banks to provide funds to Self-Help Groups at an interest rate of less than 9%.
- It will be seen from the fore-going paras that in India, efforts are under way by NABARD, NCUI and Cooperative Banks to

promote Self-Help Groups bank linkage programme and through this process help the marginalized sections of our society particularly small and marginal farmers to gain access to Cooperative Credit. Acceleration of the process of micro-finance is helping in promoting the Millennium Development Goal of poverty reduction proclaimed by the United Nations.

- The clients of cooperatives are members from different sections of Society i.e. poor middle and rich class of people.
- In agricultural Credit Cooperatives, members are small, middle and rich farmers seeking agricultural credit both short term and long-term from Primary Agricultural Credit Societies (PACS) and primary Land/Agricultural Cooperative Development Banks respectively.
- In Urban Cooperative Banks, individual members from different sections of society avail banking facilities such as deposits, loans, financial services etc.

### **Products And Services**

- Diversified range of financial services which includes savings products, loan products, remittance services, insurance products, safe locker facility, guarantees etc.
- Agricultural Credit i.e. Short term (Production Credit) and Long Term (Investment Credit).
- Priority Sector Lending.
- Refinancing facilities from NABARD.
- Personal Loan/Consumption loan.
- Moderate Interest Rates.

### **Government Role in Cooperatives**

- In India, Cooperative Sector is a State Subject and every State Government has contributed substantial financial support in

promoting cooperatives by providing equity, subsidy and Refinance facility, along with technical, managerial and marketing assistance.

- Central Government has played a key role in strengthening the cooperatives system through RBI, NABARD, NCDC, NCUI and National Federations of different cooperatives in the country.

### **Financial Regulator of Cooperatives**

- In India, Reserve Bank of India is financial regulator of Urban Cooperative Banks along with Registrar of Cooperatives is, dual control.
- NABARD is financial regulator of State Cooperative Banks, District Central Cooperative Banks & State Cooperative Agricultural & Rural Development Banks along with Registrar of Cooperatives.

### **Legal Status**

- All cooperative banks are governed by respective state cooperatives societies act or multistate cooperative societies act and banking regulation act.

### **Need to Internalise Micro Finance into Cooperatives**

- Eradication of world wide poverty.
- Improving quality of life of poor people
- Bringing socio-economic development at grass root level.
- Few Micro-finance Institutions have succeeded in bringing effective changes in rural economy e.g. Grameen Bank of Bangladesh.

### **Strategies To Internalise Micro-finance into Cooperatives**

- World wide interactions to create importance of micro-finance.

- Awareness among cooperative Agencies/Public sector undertaking/NGOs.
- Capacity Building of various institutions to streamline the process of micro-finance.
- Learning from success stories of MFIs.
- Supportive Environment among interrelated organization like Government/NGO/Cooperatives.
- Shaping and Sharpening the skills of cooperatives along with rural poor masses.

### **COOPERATIVE SECTOR – CHANGES REQUIRED (To Operationally Internalize Micro Finance)**

Empowerment has been an important notion in cooperative theory, original intent of cooperation was to empower individuals by bringing people together to achieve something they could not do alone.

The Cooperative sector has been institutionalize with strong network focusing credit and non-credit societies throughout the economy.

Micro-finance providers may be classified as those who operate in the formal sector such as banks NBFS and cooperatives and those operating in the informal sector like traders, moneylenders friends and relatives. Along with formal and informal, NGOs/MFIs may be treated as Semi-formal, while SHGs as informal.

In order to operationally internalize micro-finance as part of cooperative system, the following measures may be addressed.

#### **1. Legal Measures**

- Providing separate entity for micro-finance/SHGs for admitting as member of DCCBs/UCBs through necessary amendment in State Cooperative Societies Act/Multistate Cooperative Societies Act.

- Amendment in Bye-laws of DCCBs/UCBs be made defining clearly MFIs/SHGs status, rights, responsibilities, operations etc.
- Set up a regulatory body within the Cooperatives to supervise and regulate micro-finance as special segment.
- Nominal membership may be given to MFIs/SHGs/by DCCBs/UCBs for providing credit at reasonable rate of interest.

## **2. Structural Measures**

- Establishing structural arrangements for marketing of product of SHGs.

## **3. Operational Measures**

- RBI/NABARD to structure the operations for smooth execution.
- Separate manual for micro-finance activities be prepared.
- Areas of productive investment.
- Backward and forward linkages.
- Income Generating activities.
- Employment Generation: Full/Self Employment.
- Capitalising hidden skills like of artisans, painters, weavers, mechanics etc. through productive activity.

## **Concluding Remarks**

Micro-finance has been found as the appropriate approach and effective tool for poverty alleviation and empowerment, which can be internalised into cooperative system through strategic and legal support, keeping in view long term sustainability of micro-finance within cooperative functioning.

# **Developing Co-operative Micro-insurance System for the Poor – NEFSCUN’s Experience**

by Suman Khanal

## **What is NEFSCUN?**

Nepal Federation of Savings and Credit Co-operative Unions Limited (NEFSCUN) is the only national apex body of savings and credit co-operatives and their district unions, providing the financial and non financial services to its members guided by credit unions principles and values. It was established in 1988, registered under department of cooperatives in 1993 and is governed according to the international statement in cooperative identity. In 1998, NEFSCUN obtained regular membership with the Association of Asian Confederation of Credit Unions (ACCU).

## **Services of NEFSCUN:**

NEFSCUN has been providing the following major services for the last 17 years:

- Representations and democratic governance.
- Capacity building support for members and non member savings and credit cooperatives.
- Financial services to members
- Stationary services

- Other support services

### **What is Insurance?**

Insurance is the system of pooling resources of many to assist the needy. It is the risk sharing mechanism, which provides compensation for unexpected losses. However, it does not cover all risks.

### **Reasons Why the poor not Served by Insurance?**

Various studies have identified the following reasons behind why the poor are not served by the insurers:

- **Awareness Issue:** Poor do not understand the concept of insurance.
- **Product Design Issue:** Most of the products offered by insurers involved high transaction cost and found deviated from the need of the poor segment of society.
- **Premium Calculation Issue:** Lack of consistency; due to the lack of reliable and historical data.
- **Affordability issue:** products offer by the commercial insurers are too expensive for rural poor.
- **Efficiency Issue:** Processing of an application and claim is too slow.

### **Why Micro Insurance is needed?**

The concept of micro insurance especially in developing countries has been aroused because of the following:

- Greater disparity in the access of people to protection against risk.
- Spending of GDP on social protection program is too low. In developing countries, only 5% GDP spend on social protection program. (Chen, 2002)
- Large segment of the workforce is outside the formal wage sector and are unprotected. About 85% of the workforce in the

low-income countries is outside the formal wage sector and are unprotected. (Chen, 2002)

- The benefit from the informal source is not adequate and often uncertain.

### **What are their Expectations?**

Usually people do insurance with the following expectations.

- Funeral Assistance
- Health (Medication, hospitalization, referral services, consultation, transportation and food)
- Education
- Retirement assistance
- Compensation against accidental damages
- Loan protection/crop, live stock security
- To meet the emergency needs.
- Repayment of loan upon death of borrower, crop failure, live stock death and failure of an investment scheme.

### **Why Cooperative need to be involved?**

Although the commercial insurance is very effective scheme for the people who can afford it, is out of the access of most of the cooperative members. Roughly 80% of cooperative members do not have access over formal insurance system (NEFSCUN Study 2002). Major reasons behind the involvement of cooperative in insurance scheme are:

- The formal insurance scheme does not meet the need of lower class people
- The products are not friendly.
- Increasing vulnerability for disasters.
- Financial security to the member's and dependents.
- Enhance socio-economic stability of co-operatives.



- Brings synergy effect.
- Community concern.

### **Comparative Advantages of Cooperative Based Mutual Insurance Program**

Cooperative based mutual aid program has some unique advantages over commercial insurance. This program is characterized by,

- Member based, member owned and member controlled
- Tailor made premium rate
- Affordable/flexible premium rate
- Quick processing of claims
- Family caring
- Surplus sharing
- Earn annual interest
- Graduation from life to health, assets and then pension.

### **Situation of Social protection in Nepal:**

- 31 % of the population is below poverty line
- The government subsidy for social services is also tilted towards the better-off than the poor
- Roughly 90% people are not covered by any type of social protection program.

*(National Planning Commission Report)*

### **Formal and Informal Insurance Modalities in Nepal:**

Life Insurance Companies	4
Non Life Insurance Companies	14
Community Insurance System	8

### **Community managed Modalities in Nepal:**

Community managed insurance modalities in Nepal are:

- Rural regional Development Banks
- Community Drug Program (CDP)
- BP Koirala Health Institute and Science
- GEFONT: Transport Workers Welfare Fund
- GEFONT also established Health Insurance Cooperative in 2000
- Lalitpur Medical Insurance Scheme:
- The Public Health Concern Trust (Phect-NEPAL)
- CCODER: The Centre for Community Development and Research (CCODER)

**Member's Expectation:**

National Level Feasibility Study Report of NEFSCUN has shown the following status of Members Expectation from Insurance Scheme

S.No.	Risk Coverage/Benefit Package	Percent
1.	Life	
	Cash assistance to the survivors/ Return of premium after maturity	51
	Funeral assistance	1
2.	Health (Medication, hospitalization, referral services, consultation, transportation and food)	15
3.	Education	13
4.	Retirement assistance	1
5.	Compensation against accidental damages	11
6.	Loan protection/crop livestock security	
	To meet the emergency needs	3
	Repayment of loan upon death of the borrower, crop failure, livestock death and failure of the investment scheme	5
	<b>Total</b>	<b>100</b>

**Recommended Modality:**

Theoretically, three types of insurance models are practiced by the service providers. They are:

- Mutual benefit Society Model
- Partner agent Model
- Separate Insurance Organization Model

NEFSCUN decided to go for the Mutual Benefit Society Model because of its closer relation with the ongoing experience of Self-help services.

**Target Groups:**

The target groups of the NEFSCUN Mutual Aid Program are the Members of the Savings and Credit Cooperative Societies affiliated with NEFSCUN and their families who are not covered by the formal social protection program and who are unable to join under the commercial insurance.

**What is NEFSCUN-MAP?**

NEFSCUN Mutual Aid Program (NEFSCUN-MAP) is a co-operative based financial security system. It is aimed at pooling resources among members SACCOS that are excluded from formal social protection mechanism under co-operatives values and principles.

**Program Goals and Objectives:***Goal:*

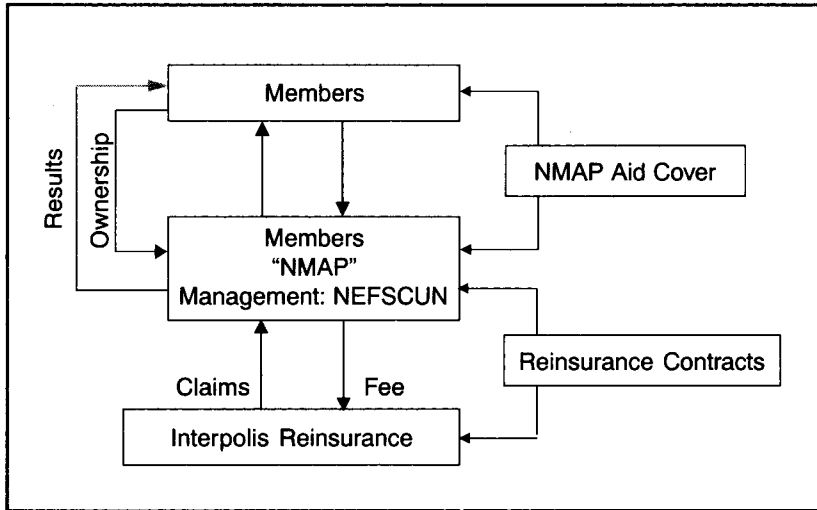
To improve the standard of living of members of SACCOS by offering micro-mutual product and services in Nepal.

*Objective:*

To offer micro-mutual insurance products and services to the members of SACCOS through NEFSCUN on value added

### Working Procedure

The Program will be operated under the following working system



### Maximum and Minimum Entrance Age:

Individual Members of SACCOS affiliated with NEFSCUN between ages 16-50 years will be eligible for NEFSCUN-MAP membership. NEFSCUN-MAP membership ends at the age of sixty (60) years. Membership will be on a yearly renewable term

### Covered Accidents:

The program will cover the following accidents:

- Fire, lighting, floods, landslides, hurricanes, earthquake
- Epidemic diseases
- While in employment
- Motor vehicles and/or road accidents.
- Falling from a height
- Consumption of poison without one's knowledge
- Animal and snake bites
- Killing by outsiders

**Exclusion from Cover:**

The following events are excluded from cover:

- Suicide; limited within a period of two years after the aid cover is in force.
- While actively involved in the act of violence.
- Murder committed by beneficiary/beneficiaries.
- While taking part in motorbike racing/rally
- Mountaineering without valid license
- Driving without valid license

While dying from a disease listed hereunder in the first three months after the aid cover is in force

*List of applicable diseases:*

Diarrhoeal diseases

Tuberculosis

HIV/AIDS

Cancer

**Conditions for Benefit Payment:**

- Benefit claims should be made within two months of the event.
- In case an amendment of the beneficiaries mentioned in the aid application form is needed, such request should be made in writing and acknowledged.
- Fee can be paid either on a quarterly, semi-annual or annual base. Fee shall always be due and paid up front from the moment that the aid cover is in force. Unless NMAP has received the initial fee from the new member, the aid cover is not in force.
- Nonpayment of fee contribution for one (1) installment or more over the last 12 consecutive months shall not result in an invalidation of the agreement, but benefits shall be calculated as

(amount of paid fee/amount of fee due for 12 months) X benefits. Non payment of fee for 12 consecutive months results in the invalidation of the agreement.

- The member completing his membership with regular payments for at least 10 years is entitled to the balance in the member's account and interest thereon. Regular payment comprises all cases where at least eighty (80) % of all premiums due have been paid.

### **Termination of the Aid Cover and Membership:**

The aid cover and membership of NMAP ceases due to the following:

- Withdrawal by the member
- Completion of aid cover period due to maximum age
- After receiving benefits due to death.

### **Documents Required for Benefit Payment:**

- NMAP Treasurer Certification
- SACCOS's Recommendation
- Death Certificate
- Police Report, when applicable
- Birth certificate and/or any other document to prove the age of the aid cover holder and covered person
- Beneficiary request/registration of benefit receive
- In case the required documents are not available and/or the required documents are not filled out completely, the NMAP Board has the right to take a final decision upon the entitlement of the beneficiary. All parties to the NMAP cover hereby agree with this procedure

### **Benefit and Choices**

*At present, the program has offered following benefit and choices:*

	Choice 1	Choice 2	Choice 3	Choice 4	Choice 5	Choice 6
<b>Age 16-44</b>						
Aid cover amount in Rs.	5,000	10,000	20,000	40,000	60,000	100,000
Annual Premium	60	150	300	600	900	1,500
<b>Age 45-60</b>						
Aid cover amount in Rs.	5,000	10,000	20,000	40,000	60,000	100,000
Annual Premium	100	225	450	900	1,350	2,250

**Issues and Challenges:**

During one year implementation period, the followings challenges were encountered:

- Lack of awareness among the members.
- Higher administrative cost at the beginning.
- Comparison with commercial insurance.
- Conflict situation of the country.
- Lack of culture of risk reduction and mitigation.
- Lack of reliable data.
- Lack of local insurance expertise.
- Security Problem.

**Lesson Learned:**

Based on the implementation of program, the following lessons have been learnt:

- Mutual aid program is an effective mechanism of pooling the resources.
- Diversified products and services based on member need is required for the promotion of program.
- Mutual Aid product and services is badly needed for the members having no access on commercial insurance and for SACCOS.
- Mutual Aid Program is an effective mechanism for attracting the new members in cooperatives.

**Way Forward:**

In forthcoming days, NEFSCUN is planning to undertake the following steps for the promotion of program:

- Products strengthen dialogue with the co-operatives/their members as potential clients and scheme managers.
- Empower local communities.



- Action oriented development initiatives after having dialogue with co-operatives.
  - Foster greater awareness of insurance solutions and services.
  - Explore for common understanding of data needs and work for that.
  - Study the actual impact and effectiveness of existing products before diversifying products.
  - Focus more on institutional strengthening.
  - Develop incentives to reduce disaster risk.
  - Establish a network among the practitioners.
-



**Power Point Presentations**



# MICRO FINANCE

PRODUCT DESIGN  
DELIVERY SYSTEM  
INSTITUTIONAL SUPPORT

P. V. PRABHU

## INTRODUCTION

- Govt.of India launched various schemes to alleviate poverty ( Massive IRDP since 1978-79 )
- Regulated interest rates & low recovery resulted in heavy loss to the banks in financing the poor
- Financial Margin not sufficient to cover Transaction Cost
- Viability of banks affected due to huge NPAs in mandatory / directed lending

## LIMITATIONS OF INSTITUTIONAL CREDIT

### From the angle of the Poor

- Lack of awareness
- Apprehension that the banks are not meant for them
- Inability to provide security
- Long delay in obtaining small / consumption loans
- Uncertainty of getting the loan

### From bankers' angle

- General mental reservation due to fear of bad debts
- Lack of security
- Non conformity with the usual banking norms
- Low returns & high transaction costs

## EMERGENCE OF MICRO FINANCE

- Experiments in Micro Finance (MF) have demonstrated the possibility of providing financial assistance to the poor in a sustainable manner
- Rationale of Micro Finance has roots in failure of formal credit institutions including the Cooperatives to extend financial assistance to the poor
- MF has assumed considerable importance in view of the need to increase income levels, and reduce unemployment & poverty

Contd ...

- MF deals with financing those poor who otherwise could not have obtained financial assistance from banks or other financial institutions
- MF is built around the methodology that Group lending, rather than individual lending, helps realise objectives in an efficient manner as borne out by Bangladesh Grameen Bank experiment
- MF has spread successfully in most of the developing nations and in a few developed nations

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## DEFINING MICROFINANCE

- MF has not been defined in terms of quantum of finance. It has been described in a number of ways
- MF is, mobilising resources from members, donors, governments, banks and other financial institutions & providing credit in small quantities as also facilitating the provision of financial services such as insurance, mutual funds , training and capacity building.
- The Institutions that provide credit and the financial services, are referred to as Micro Finance Institutions (MFIs)
- Institutions that provide only credit and do not extend financial services are referred to as Micro Credit Institutions (MCI)
- In rural areas , financial services may not be quite relevant. Micro Institutions in these areas tend to be MCIs only.

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## PRODUCT DESIGN

- Indian rural banking units were selling rather than marketing their products
- This perhaps was one of the reasons for the losses the banks had suffered in financing the poor
- Product design has to be in tune with the cash flows and cash needs of the poor
- At the macro level, **designing** MF is based on marketing of the financial products tailor-made to suit the poor in terms of volume, price and timing
- Loan is not the only answer to financial needs of the poor
- Different financial services and different products within the services are required

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Contd ...

## Categories of Financial Services & Products

### SAVINGS

- LT - for old age  
 MT & ST - marriage /education of children, pilgrimage, festival  
 Very ST - for emergencies (sickness, accident )

### CREDIT

- WC - Production  
 MT - Purchase of equipment  
 ST - Repairs to house  
 LT - Construction or purchase of House

### INSURANCE

Health, accident, death, natural disasters, man made disasters

Hybrid products can be designed

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## INNOVATIONS IN MICRO FINANCE

- Experience has shown that extending financial assistance to individuals among the poor has not met with the desired success
- Group Lending as a viable alternative has been innovated
- The concept of 'Group' under Micro Finance is different and distinct from that for the purpose of prudential exposure limits
- Under Micro Finance, a Group is a self governed, peer controlled, informal group of people with similar socio-economic background and having a desire to collectively achieve the desired common purpose.
- **SELF HELP GROUP (SHG) has emerged as a result of such innovation**

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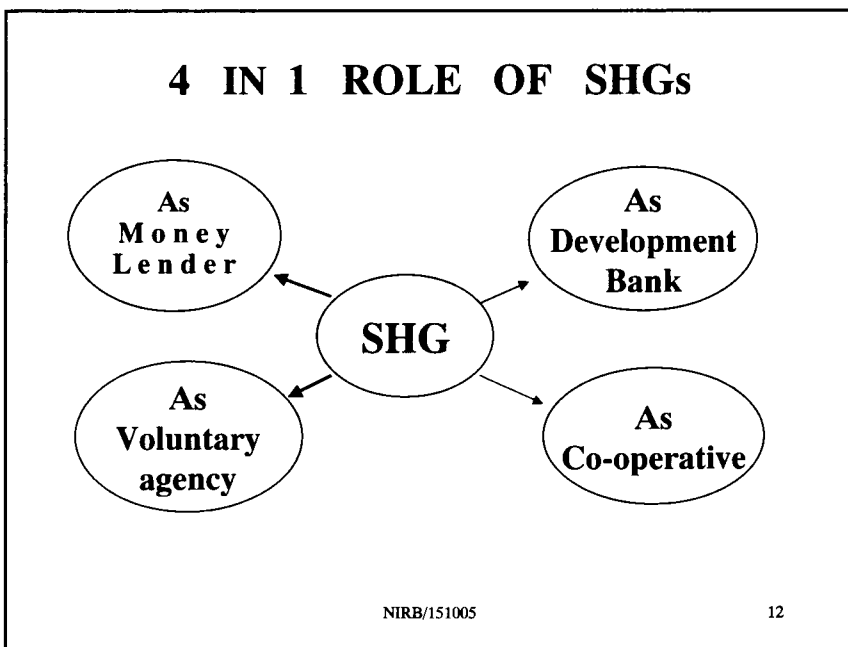
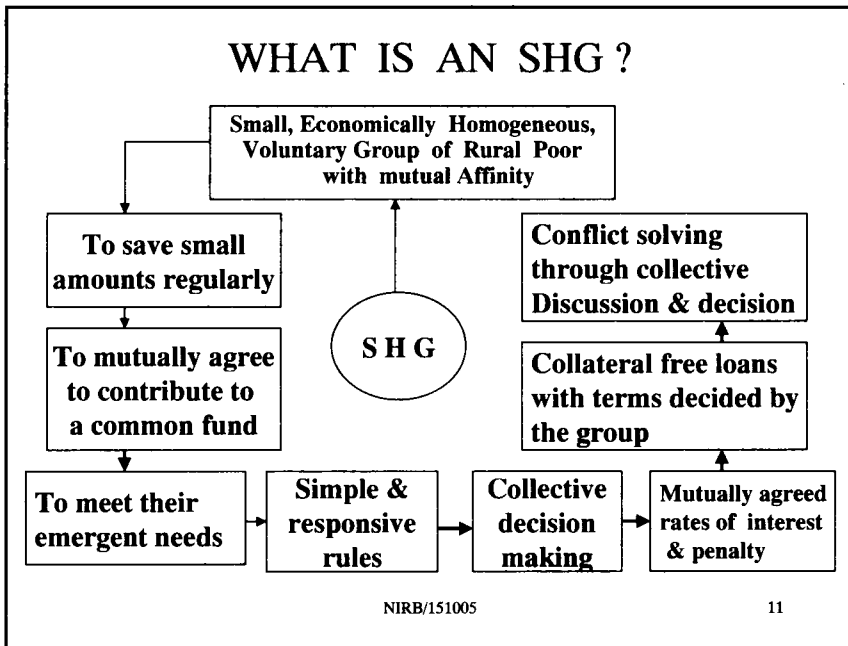
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## MICRO FINANCE IN INDIA

- NABARD initiated SHG – Bank Linkage Programme in 1991-92
- In Feb 2000 RBI issued guidelines to banks for mainstreaming MF and enhancing the MF providers
- To provide freedom & to encourage banks to extend MF, no specific model has been prescribed by RBI
- RBI actively supports the initiatives of NABARD

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**Contd ...**

As a Money Lender - providing speedy small loans

As a Development Bank - providing small & investment credit without lengthy procedures, documentation, security etc. & at low transaction cost

As a Co-Operative - following participatory approach of mutual co-operation & peer pressure, with lot of flexibility and without the ills of selfish interest or external interference

As a Voluntary Agency - helping each other through common effort for bringing economic & social upliftment among the poor

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### **SHGs - CRITERIA FOR SELECTION & FINANCE**

Active existence for a period of at least 6 months

Successfully undertaken savings & credit operations from its own resources

Democratic working of the group

Maintenance of proper accounts & records

Not formed just for taking bank loan ;  
genuine need to help each other & work together

Homogeneous background & interest preferable

SHPI (Self Help Promoting Institution) should be helping the SHG in training – knowledge addition, skill up-gradation and attitudinal change, for effective functioning

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## CRITERIA FOR IDENTIFYING VAs

Legal entity

Working in rural area continuously for at least 3 yrs

Broad based objectives

Service motive and not profit motive

No discrimination on the basis of race, religion, caste or gender

Office bearers not to be members of any political party

Adoption of constitutional & non - violent means

Committed to secular & democratic concepts & methods

Professionally competent to plan, manage, monitor & document the experiences

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## Bank Linkage - Guidelines

### Group size

preferably between 10 - 20

### Proportion of savings to loan

can vary from 1:1 to 1:4

### Purposes for which group can lend

left to the collective wisdom of the group

### Rate of Interest

Banks to VA	Free to decide
Banks to SHG	Free to decide
SHG to members	As decided by SHG
NABARD to Banks	6.00% (up to Rs.50,000)
	6.25% (above Rs.50000)

### Rate of Refinance

100%  
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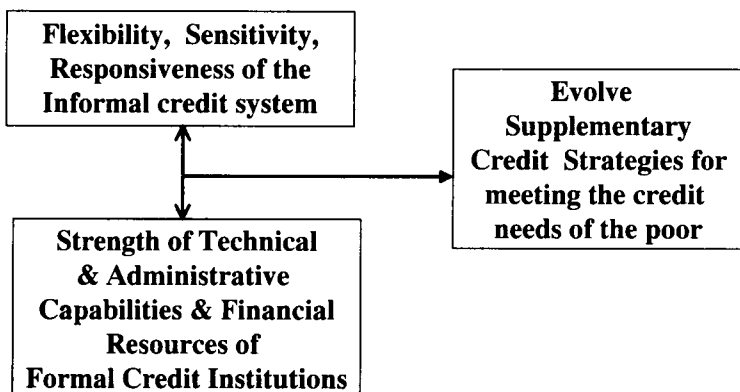
Contd ...

Opening of S.B. Accounts  
 Banks to have Corporate Strategy  
 New segment under Priority Sector  
 Service area relaxations  
 Margin & Security norms relaxed  
 Repayment period  
 Dealing with defaulters in SHGs

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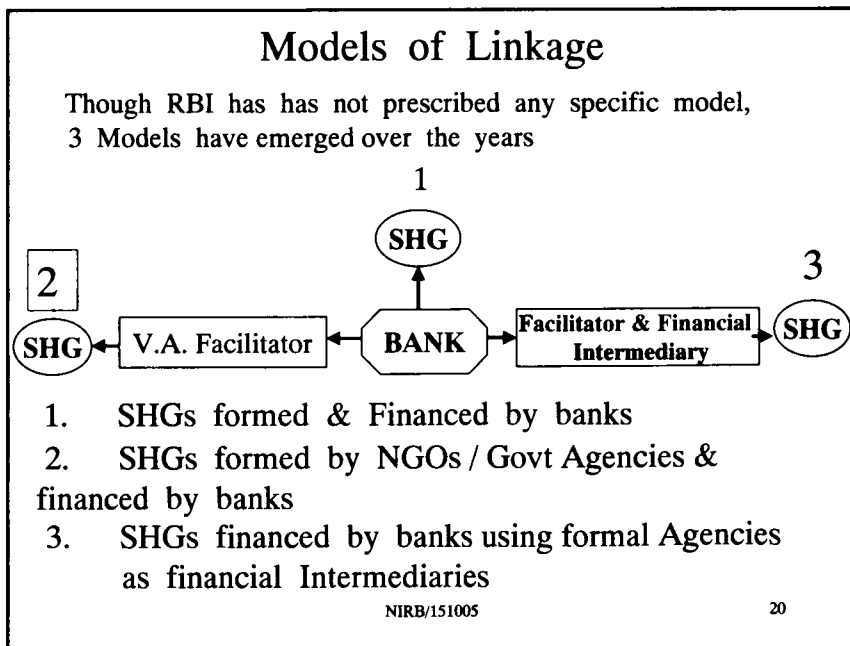
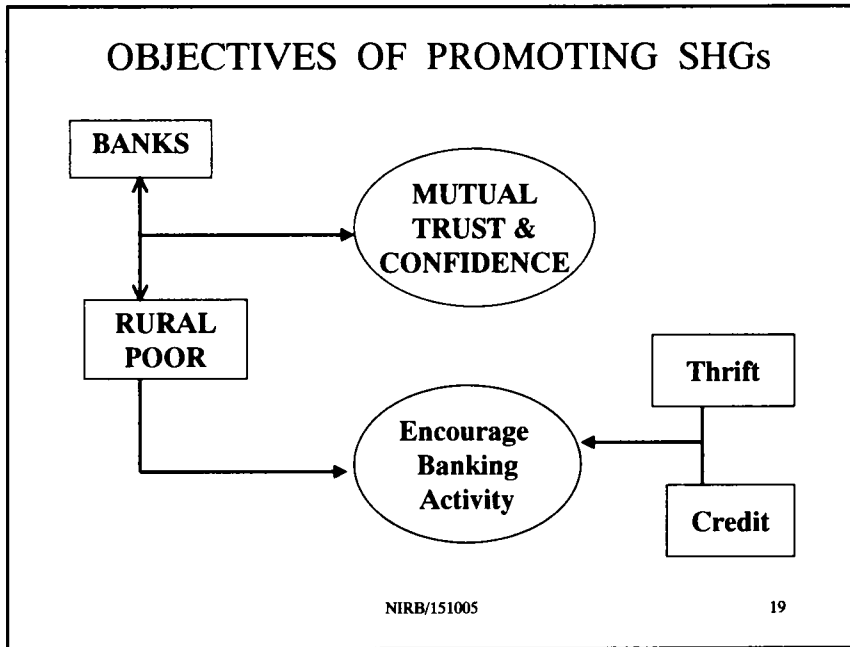
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## DELIVERY SYSTEM - EVOLUTION



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## UNIQUENESS OF SHG –BANK LINKAGE

- A MECHANISM** : Developing thrift & safe keeping of savings
- A SYSTEM** : Supplementing & not supplanting the general system
- A DESIGN** : Combining the collective wisdom of the poor, organisational capabilities of the NGOs & financial strength of the banks
- A FRAMEWORK**: Offers opportunity for inter-institutional understanding & cooperation
- A FOCUS** : On poor by socio-economic intermediation
- A SCHOOL** : Graduates SHGs as quality Micro Enterprises
- A PROCESS** : Leads to empowerment of the poor

## SHGs - REASONS FOR GOOD REPAYMENTS

Quick, easy & realistic appraisal of the loan, activity & the borrower by the group

Flexibility of lending procedures and norms

Speedy availability of loans

Effective follow up on the part of the group, leading to proper utilisation of loan

Group pressure, social stigma ,fear of expulsion from the group & deprivation of future benefits

## INSTITUTIONAL SUPPORT

- Policy & Regulations – Reserve Bank of India
- Operational Guidance at the Apex level – NABARD
- Operations (extending micro credit) -
  - Commercial banks
  - Regional Rural Banks
  - Cooperative Banks
- Intermediaries – Voluntary Agencies (NGOs)

## VOLUNTARY AGENCY

An NGO is any organisation outside the fold of Govt ownership or control, irrespective of its role

VAs are organisations with a strong social commitment to the poor.

Broadly, they are :

Socio - Economic Organisations

Socio - Cultural Organisations

Rural Development Societies

Cultural Organisations

Service Oriented Organisations &

Societies



## VAs & SHGs

Organising the poor into groups

Training them and helping them in their organisational, managerial & financial matters

Linking them with financial agencies

Channelling the group effort for various development activities

Sustaining the group effort independently even after withdrawal of the V.A.

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## FARMERS' CLUBS

( formerly Vikas Volunteer Vahini )

### DEVELOPMENT THROUGH CREDIT

Bank loans should be utilised with proper scientific and technical methods

All the terms and conditions of bank loan should be observed / honoured

Assets acquired with the help of bank loan should be utilised with proper skills to increase production

There should be regular savings out of increased production

The bank loan should be repaid regularly and promptly to ensure recycling of credit

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## RECENT DEVELOPMENTS

- In its Mid term review of the Monetary policy in Nov 2003, RBI announced a policy framework urging the banks
  - To Provide adequate incentives to branches for financing SHGs
  - To Establish linkages with them
  - To Simplify procedures & provide flexibility to suit local conditions
  - Not to regulate the group dynamics or impose formal structures
- NABARD was advised to
  - Reinforce its commitment to enhance the flow of Micro credit
  - Simplify the process
  - Devise mechanism to share experiences among all concerned

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Contd ...

- RBI's Annual Policy Statement of April 2005 indicated certain measures to give further fillip to MF Movement
  - Access to External Commercial Borrowings for NGOs engaged in MF activities
  - Modalities were worked out for allowing banks to adopt the Agency model by using the infrastructure of civil society organisations, rural kiosks, and rural knowledge centres for providing credit support to rural and farm sectors
  - Appointment of MFIs as banking correspondents

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## THE NEW PARADIGM

Dominant theme so far has been extending micro credit through Bank – SHG Linkages with NGOs acting as catalysts and NABARD playing the leadership role.

There is an emerging paradigm in the approach to MF

For the purpose of exempting the MFIs (registered under section 25 of the Companies Act) from the core regulatory provisions of NBFCs, such companies are required by RBI to be engaged solely in MF up to Rs.50,000 for small business and up to Rs.1.25 lakh for housing, in rural areas.

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## Position as on 31 – 03 - 2005

- SHG-Banks Linkage Prog is major MF Prog in India.
- Implemented by
  - 48 Commercial Banks
  - 196 RRBs
  - 316 Cooperative Banks
  - 3,024 NGOs
- No. of SHGs credit linked----- 16.18 lakh  
( 90% exclusive of women)
- No. of poor families covered ----- 2.42 crore
- Average Loan / SHG ----- Rs.42,620/-
- Average Loan / Family ----- Rs.3,404/-

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## CONCLUSION

- The Indian model, which is predominantly SHGs based, has the advantage of not needing specific regulations for Micro Finance sector
- Credit flows from banks are subject to surveillance under the regulatory framework. Insurance & Mutual funds are also subject to respective regulations
- However, there are certain regulatory concerns as pointed out by the RBI Governor recently, in the form of exploratory questions for generating intellectual discussions
- As the RBI Governor has rightly stressed, it would be useful to be light on Micro Finance regulations in view of the flexibility and informality under which the MFIs and MCIs operate.

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# T H A N K      Y O U

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**Micro-Finance and Self-Help Groups-  
Concepts, Formation, Linkages with  
Banks and Policy Initiatives**

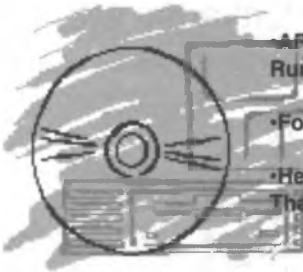
A Presentation by

**Benedicto S. Bayaua  
Secretary General  
APRACA**

**ABOUT APRACA**



## Establishment



APRACA stands for the Asia-Pacific Rural and Agricultural Credit Association.

• Formally launched on October 14, 1977

• Headquarters in Bangkok, Thailand



### Vision, Mission and Objectives

**Vision:** APRACA aspires to work for rural growth and development, with priority emphasis on the uplift of rural poor.

**Mission:** APRACA pursues promotion of the efficiency and effectiveness of rural finance and access to financial services in order to broaden the target group.



## Objectives

- **Fostering cooperation in improving and planning the financial arrangements for rural and agricultural development;**
- **Establishing among the members, a machinery for systematic interchange of information on sustainable rural and agricultural financial services;**
- **Encouraging and assisting in undertaking inter-country studies on matters of common interest in the field of rural finance, and publishing and distributing such studies;**
- **Organising and coordinating training programs on rural finance, and facilitating the exchange of personnel/experts among its members;**



## Objectives

- **Providing services related to consultancy, research and publications in the field of rural finance; and**
- **Facilitating cooperation on rural finance projects between its members and donors, including assisting in project proposal preparation and project implementation.**

**Membership**  
**62 member institutions in 23 countries.**

India	11	Philippines	10
Sri Lanka	6	Nepal	4
Indonesia	5	Thailand	4
Cambodia	3	China	2
Kyrgyzstan	2	Vietnam	2
Australia	1	Azerbaijan	1
Bangladesh	1	Iran	1
Japan	1	Republic of Korea	1
Malaysia	1	Mongolia	1
Myanmar	1	Pakistan	1
Solomon Islands	1	Timor Leste	1
Uzbekistan	1		



**Structure**

- Policy Making Body- General Assembly
- Executive Body - Executive Committee
- Day-to day management- APRACA Secretariat

**Three agencies**

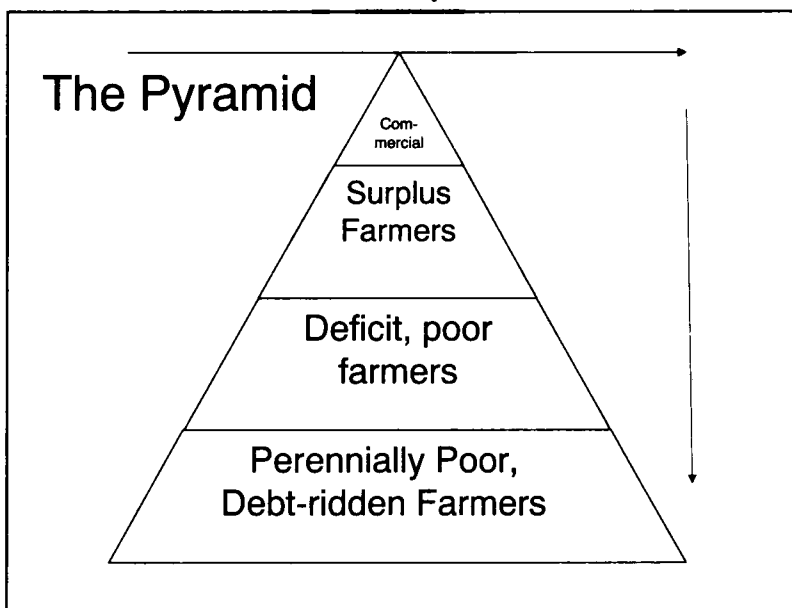
- Agency for Training- CENTRAB
- Agency for Consultancy- ACS
- Agency for Publications- APRACA Publications



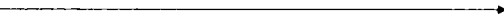
## 1. Concept of Micro Finance

### - Defining Micro-Finance

- Who defines what micro-finance is?
- Who sets the criteria for micro-finance?



- Horizontal Expansion



- Vertical Intensification




- How deep should the vertical intensification be to render the potential clients

–Bankable?

–Viable?

–Sustainable?



- What is the minimum amount that should allow the financial transaction to be
    - Bankable?
    - Viable?
    - Sustainable?
- 

- What activities should be undertaken to make the potential clients
  - Bankable?
  - Viable?
  - Sustainable?

## Self-Help Groups developed in time

- From the point of view of rural poor: Lack of individual access to formal funds
- From the point of view of formal institutions: Need for bankable, viable, sustainable outreach

## 2. Formation of self-help groups

- Mechanism for
  - Self-help
  - Self- Reliance
  - Self-Governance

## SHG Development Process

- Identification of target households
- Group Information
- Group Formation
- Verification, harmonization
- Group structuring and guidance
- Group recognition and promotion
- Apprenticeship training

- Bankability recognition
- Individual savings
- Group savings
- Selection of Individual entrepreneurial activities
- Selection of group entrepreneurial activities
- Group lending to SHG

- Linkage with other groups of SHGs
- Joining the mainstream

### 3. Why Linkage banking

Some rationale

- Linking formal with informal sector to improve access
- Platform for financial sector exchange
- Reduction of rural financial systems fragmentation

- Implicit poverty dimension
- Compromise between private and public sector
- Opening up entrepreneurial opportunities

## History

1986, Nanjing, China, Linkage banking idea cropped up, GTZ-APRACA Collaboration

1986, Kathmandu, Nepal, 6<sup>th</sup> APRACA General Assembly: Linkage Banking as Main APRACA Programme

- 1987-88, 5 Provinces, Indonesia, Pilot project launched
- 1989, Thailand, Pilot project launched
- 1990, Philippines, Pilot project launched

- 1991, RBI India issues circular advising participation in pilot project
- 1992, NABARD issues linkage banking guidelines



## Distinct Components

- Formation and upgrading of self-help groups
- Downscaling of banks
- Financial linkages and transactions
- Institutional Linkages

## Upgrading of Self-Help Groups

- Categorizing groups
- Selective upgrading
- Training
- SHPI support in non-financial services

## Role of SHPIs

- Financial conduit
- Provider of non-financial services
  - Community Organizers
  - Motivators
  - Facilitators
  - Training specialists
  - Social service providers

## Downscaling of Banks

- Re-alignment of main business
- Establishment of special units within the banks
- Establishment of wholesale financing units
- Links with smaller banks and MFIs
- Establishment of other informal groups- joint liability groups, for one

## Financial Linkage

Credit plus savings

## Institutional Linkage

- Bank → SHG
- Bank → NGO/MFI → SHG
- Bank → Wholesale Institutions → NGO/MFI → SHG

Bank → SHG  
 SHPI → SHG

#### **4. Micro- finance policy initiatives**

- **Role of Central Banks**
- **Role of other apex regulatory authorities**

- **Special laws for/Licensing of MFIs**
- **Transformation of NGOs into MFIs**
- **Accreditation of NGOs as quasi-banks**

## MFI laws on

- Capital requirements
- Legal form
- Interest rate controls, or limits on the spread
- Deposit taking
- Collateral requirements
- Borrowings
- Branching requirements
- Entry of foreign investment in MFIs
- Supervision

- Legal status for SHGs
- Conversion of groups of SHGs into semi-formal institutions, small MFIs
- Share/Ownership of SHGs in wholesale financing institutions

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## Microfinance : the NABARD Experience

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Dr. B.S.Suran  
Deputy General Manager,  
National Bank for Agriculture and Rural Development,  
India

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### Microfinance

- *“Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and/or urban areas for enabling them to raise their income levels and improve living standards”*

- NABARD's Task Force on Microfinance, 1999

---

## The Five Challenges : we faced

- **Challenge - 1 :** 270 million poor - 27% of population continued to be "poor"- no sustainable access to financial services.
- **Challenge - 2:** 36% of cash dues of rural HHs come from informal sources (1992). the poorer of the poor are still outside the fold of banking system
- **Challenge - 3:** Due to high transaction costs & high defaults in poverty alleviation programmes, a common view that poor are not bankable
- **Challenge - 4:** Near total mismatch between what poor want and what formal system can deliver
- **Challenge - 5:** Cumbersome systems and procedures.
- .....These were opportunities !!

## Microfinance Initiatives

- Self Help Group - Bank Linkage Programme
- Credit through specialised Microfinance Institutions (MFIs)
  - SIDBI Foundation for Micro Credit (SFMC)
  - Rashtriya Mahila Kosh
  - NABARD
- Banks ??

## SHG-Bank Linkage Programme

How did NABARD go about ?

### STEP 1 : Designing an Action Research

■1986-87:

□NABARD supported an action research project of "*Savings and Credit Management of SHGs*" sponsored by Mysore Resettlement and Development Agency (MYRADA)

■1988-89:

□Surveyed 43 NGOs over 11 States to study functioning of informal groups and possibility of bank linkage

### STEP 2: Pilot Project for linking 500 SHGs to banks

- Evolving product design, both - savings and credit to
  - reduce transaction costs of the poor
  - reduce transaction costs of the financing agencies
  - enhance participation by poor in decision making
- Creating a policy framework
  - Opening of savings account of informal groups in formal banks
  - Collateral free financing
  - Rating system for financing SHGs
  - Documentation
- Sensitising the banks about bank linkage
- Playing the facilitator's role



### **STEP3 : Gearing up for mainstreaming of linkage**

#### **banking:**

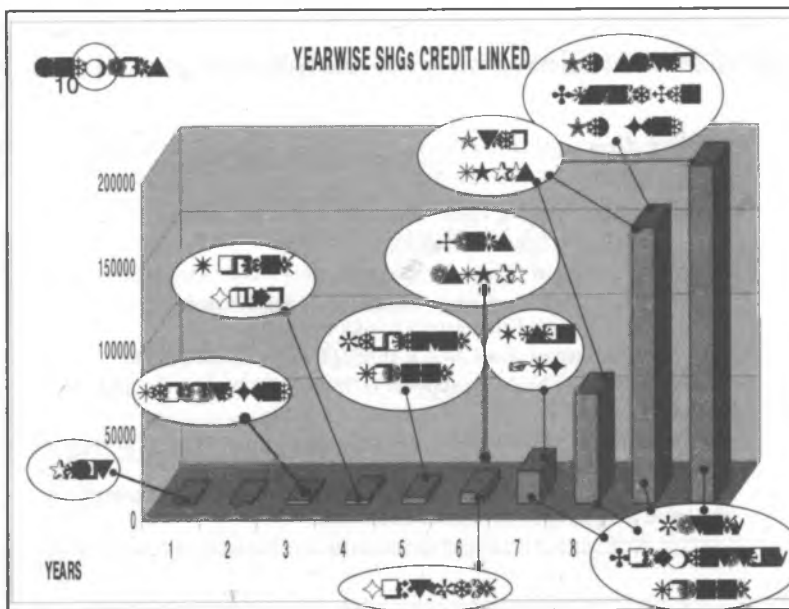
- Nurturing natural growth of the programme
  - Not pushing hard, no targets
  - Building own capabilities and skills
  - Tackling operational issues
  - Creating a cadre of trainers
  - Creating handling capacities of the partner agencies
  - Gaining own conviction about the policy and operations
- Encouraging banks with incentivised refinance
- Initiating experiments for NGOs as financial intermediaries
- Initiating experiments with other social intermediaries
  - Learning the implications on financing, regulation and supervision
- Building awareness among policy makers and CEOs of banks
  - Task Force on NGOs and SHGs by Central Bank

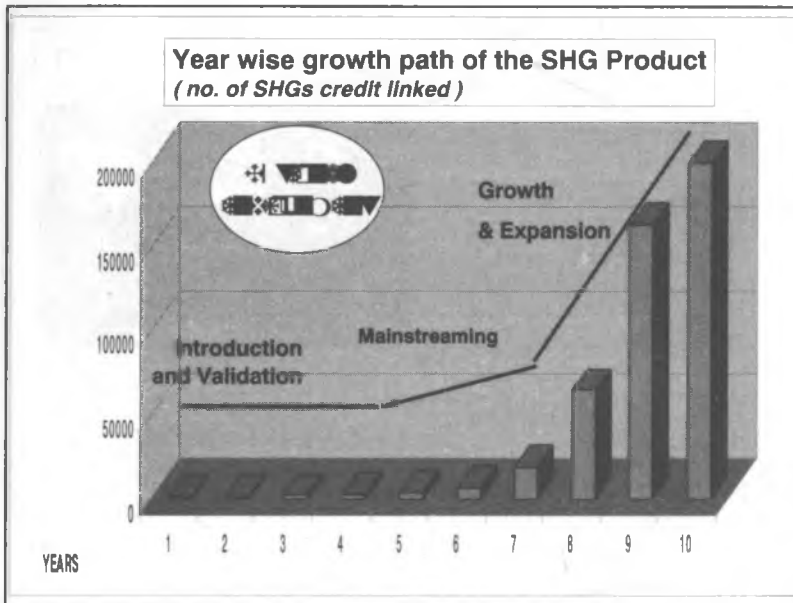
### **STEP 4 : Mainstreaming mF with banking operations**

- Policy direction for integrating linkage banking with mainstream banking
- Scaling up training interventions for bank staff
  - Focus on trainers training
  - Training of field level bankers
    - through experienced NGOs and training establishments of banks and NABARD
  - Training of small NGOs through experienced NGOs
- Selective capacity building support to NGOs for promotion and nurturing of SHGs
- Ensuring minimal failure through high quality screening of groups and financing - rating of SHGs
- Generating commitment of the top management of banks through exposure programmes for senior executives

### STEP5 :Graduating to a Movement for Banking with Poo

- Flooding the rural areas with quality SHGs
  - Search for new partners for organising poor into SHGs
    - Small social sector NGOs
    - Branch staff of Rural Banks
    - Farmers Clubs
    - Field staff of government agencies
    - Individual rural volunteers and Village local bodies
  - Their Large scale capacity building and incentive mechanism
  - Facilitating evolution of Federations of SHGs
  - Capacity building of mFIs
  - Transferring the ownership to stake holders
  - Adopting region specific intervention strategies
  - Positioning linkage banking as commercial proposition
  - Reorienting MIS





## SHG - CONCEPT

- |                                       |                 |
|---------------------------------------|-----------------|
| o <u>10 - 20 Members</u>              | Democratic      |
| o <u>Homogenous</u>                   | <u>informal</u> |
| o <u>Affinity</u>                     | autonomous      |
| o Neighborhood                        | accountable     |
| o Thrift* and loan                    | controlled      |
| o own bank- ATM (24 hour accessible!) | governed        |
| o <u>Gender !! / Discipline !!</u>    |                 |

..... Also a forum for many issues

\* mandatory

## Formation

- Name SHG
- Elect Leaders
- Set Objectives
- Few Rules and Regulations
- Inform nearest Bank Branch



Internal Loaning before bank borrowings

Instability →

Stability

- Understanding increases gradually
- Internal Loaning continues
- Consumption loans?? (Basic Needs) → Productive loans
- Leader's & capacities within increases



## Design features !!

- Enables exclusion of rich
- Self-selection
- Focus on women
- Saving first and credit later
- Intra group appraisal systems and prioritization
- Credit rationing
- Shorter repayment terms
- Market rates of interest
- Progressive lending
- Multi-eyed operation

■ **Total till March '05:**

- > 16.18 lakh SHGs linked with loans of Rs. 6,898 crore
- > touches 24 million Households

### Bank Linkage Models : different

I (20%)

**BANK**

↓

Bank as SHPI

↓

**SHGs**

II (72%)

**BANK**

↓

NGO/ Govt as SHPI

↓

**SHGs**

III (8%)

**BANK**

↓

NGO as Financial Intermediary

↓

**SHGs**

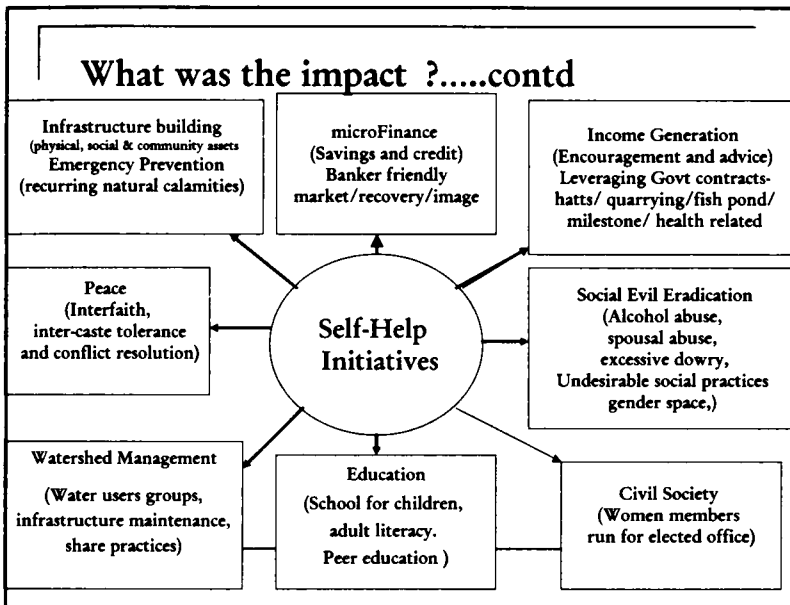
## SHG-Bank Linkage Programme

### Impact

- Programme targeted who were intended to be covered under the programme
  - Member households largely poorer segments of the population viz; landless agricultural labourers (31%); marginal farmers (23%); small farmers (29%)
- Linkage with the SHG system enabled the poor to increase their average asset-base
  - By 13% per household in three years time
  - 62 per cent of the households reported increase of 24.5% in assets
- Housing conditions generally improved
  - Shift in the ownership from *kutchra* to *pucca* housing.

### Impact (cont'd)

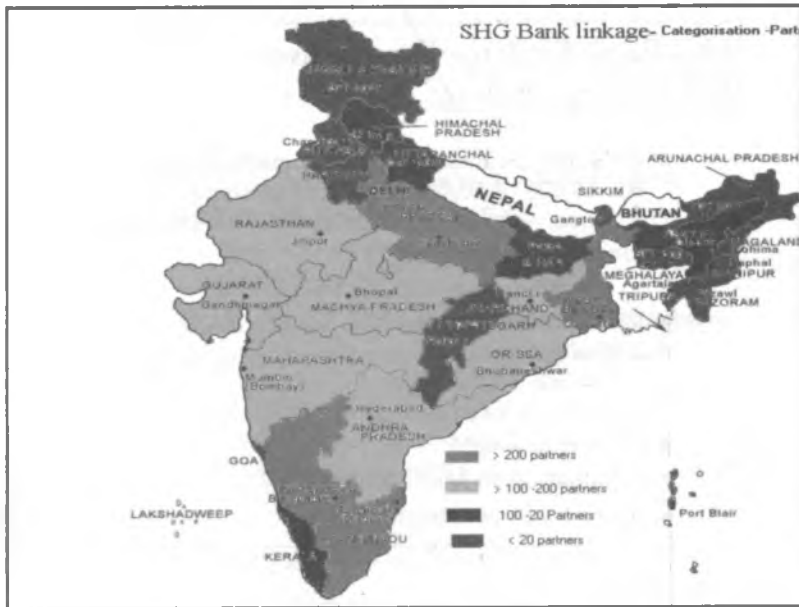
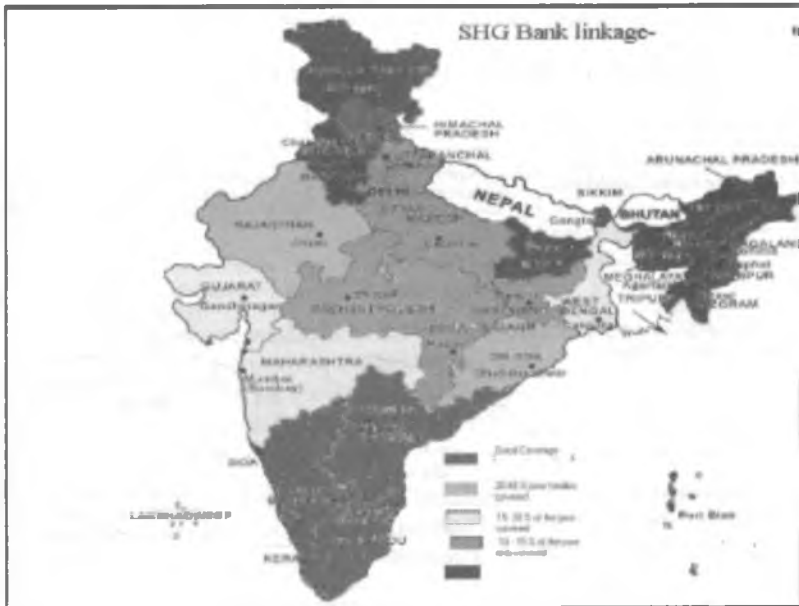
- Almost all of the members developed saving habit in the post-SHG situation
  - In many cases the average annual savings per household registered over threefold increase (Rs. 460 to Rs. 1,444)
- About 43% of the incremental income generated was from Non Farm Sector (NFS) activities
- Social impact
  - 89% could meet officials (as against 23% earlier)
  - Attitudes towards women changed



## **SHG-Bank Linkage Programme**

### The Upscaling Challenge

- **>75 million households need microfinance of Rs. 15,000 to 50,000 crore (one estimate)**
  - Actual: ~ 24 million households; Credit Rs. 6,898 crore
- **Uneven distribution**
  - 87% SHGs concentrated in 9 States
- **Qualitative dimension**
  - Quality of groups
  - Training of stakeholders
  - Proper book-keeping by groups
- **Market linkages**
- **Graduation to Micro Enterprises**
- **More credit per member ??**





## Government Policy – for mFIs & other issues

### Steps taken

- **MFDF redesignated; Corpus increase underway**
  - Estimate of total equity requirement over time being made
  - Alternative sources may be also explored
- **Advisory Board constituted**
  - Chaired by MD, NABARD
- **ECB guidelines issued**
  - Upto US\$ 5 million per year
- **RBI's committee has examined the issue of 'Banking Correspondents'**
  - Two models suggested
    - *Business Facilitator Model - for non-financial services*
    - *Business Correspondent Model - for financial services*
  - Draft Technical Paper under discussion
- **Advisory Board will suggest draft Regulation**

MicroFinance : the  
experience from  
cooperatives

## Entry of coop banks in SHG financing

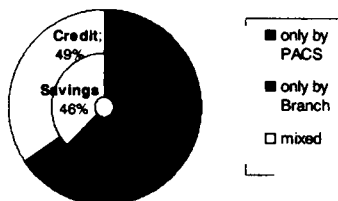
Year	No. of banks	No. of SHGs	% age
1999	35	1270	4%
2000	61	4028	4%
2001	94	12773	4.8 %
2002	209	38,663	8.3 %
2003	264	78,959	11%
2004	316	134,671	12.5%
2005	330	211,137	13%

## Some land marks & issues .. Coops

- Guidelines issued in 1996
- Needed to change byelaws to do business
- Many not complying with Sec 11
- .....Therefore not eligible for refinance
- A few banks selectively supported for SHG cell
- Exposure visits for coop banks commenced
- 2002 – enlisted coop banks as SHPI

(59 banks- grant 2.57 cr – 29,000 SHGs- 19,059 promoted \* 6076 credit linked  
 13 from Karnataka of the 16 from south , 17 from central & 12 banks each ( 10 from west  
 Bengal) from east & west ( 8 from Maharashtra)

## Linkage to PACS vs. DCCB Branches



Findings &  
Conclusions

Number of SHG savings and loan accounts	
at PACS	61%
at Branches	39%

Based on response  
from 200 DCCBs

Source : study by Harper & Ramakrishna ( 2004)

## Linkage to PACS vs. DCCB Branches

### Advantages of PACS:

- Local staff, fewer transfers,
- Closer to home, less formal
- Flexible working hours

### But:

- May be uninsured (SHG savings at Branches are insured!), may not be lending
- Might not have latest information



Branches normally as supporters,  
but can take over linkage

Source : study by Harper & Ramakrishna ( 2004)

## Financial Impact

	SHG to Total outstanding	
	Average per DCCB	No. DCCBs with >2%
Savings	0.23%	7
Loan	0.69%	10

Based on response from 150 DCCBs

- Low cost deposits
- Improved direct & indirect recoveries ...
- Float on refinance - 36 month money „free“ for 24 month
- Increased Shop & PDS sales (outlets become economic)
- Shift from higher margin jewel loans to lower margin unsecured SHG loans
- SHG members opening individual accounts

➔ Future vision is mainly social not financial

Source : study by Harper & Ramakrishna ( 2004)

## Membership – Variety of Approaches

- TN: no new members allowed
- Kerala: no membership
- Karnataka etc.: Nominal Membership
- Hooghly: Universal Membership Scheme
- Mugberia: Full Membership (A Class)

➔ Does membership matter ?

- Nominal Membership is irrelevant
- Impact of Full Membership will take time

Source : study by Harper & Ramakrishna ( 2004)

## Politics – different impact case by case

Findings &  
Conclusions

- **South Canara:** president spends 30 lakhs of DCCBs money on SHG rally for political purposes.
- **Chandrapur:** Chairman uses influence to mobilise government staff as SHPI.
- **Hooghly:** CPI(M) cadres work closely and effectively as SHPI assistant at no cost for the PACS.
- **Virudhnagar:** all Cooperatives under government control for 21 out of the last 27 years as pre-election strategy.
- **Kollam:** Synergy of SHG Bank Linkage and government programmes (support through Kudumbusree etc.).



Politicians and Cooperatives can also work effectively together, but ...

Source : study by Harper & Ramakrishna ( 2004)

## Capacity Building



## Capacity Building

- Training at all levels, in particular:
    - PACS Staff – think financially
    - Clarity in communication
    - Include lower level PACS staff
    - Include Board of Directors
    - Go beyond „SHG concept“
    - Avoid raising unrealistic expectations for SHG members
    - Strategic thinking and planning
- Findings & Conclusions
- Respect for customers, especially SHGs
    - Exposure within District and State
  - ODI (Organisation Development Intervention)
    - Include SHG linkage in BDP / MoU
    - Include the PACS

Source : study by Harper & Ramakrishna ( 2004)

## Some Recommendations to NABARD

- Do not generalize (what works in West Bengal may not work in Tamil Nadu)!
- Show that SHG Linkage need not involve extra staff, and that weaker banks can do it
- Encourage linkage to PACS, but with branches in reserve
- Ensure that all SHG savings are insured
- Discourage Linkage to sick PACS
- Do not prescribe, recommend or accept uneconomic margins

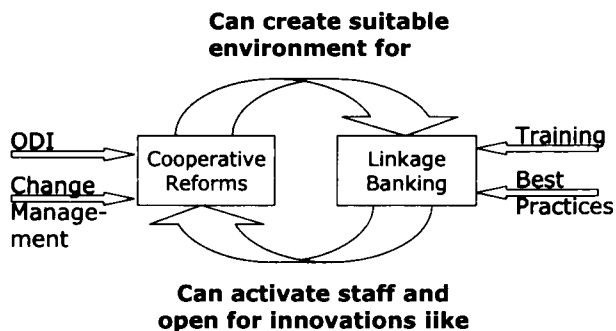
Source : study by Harper & Ramakrishna ( 2004)

## Recommendations

- Facilitate exposure within as well as beyond the Districts
- Encourage business-like thinking in Cooperative Financial Institutions
- Insist on clear communication and ensure that circulars etc. are understood
- Strengthen ODI delivery capacities
- Do not be frightened of politics
- Do not generalize!

Source : study by Harper & Ramakrishna ( 2004)

## Reform of Coop. Financial Institutions: Synergy Effects with SHG Linkage



## Reform in coops : Comparison with the RRB revitalisation

RRBs: `93: 70% in losses  $\implies$  `04: 20% in losses

DCCBs: `03: 54% in losses  $\implies$  `...10: ??? in losses

- Parallels:
  - Large number of „sick“ institutions
  - Resistance to downsizing or closure
  - History of failed reforms
  - Variety of stakeholders
- But some differences:
  - Cooperation is a State subject
  - Lack of deposits

---

Source : study by Harper & Ramakrishna ( 2004)

## Reform process might include

- State by State approach (? Uttaranachal, Chhattisgarh)
- Limited Recapitalisation, mainly as carrot to S.Govts, instead more attention on mobilisation of own funds
- Recognition / Incentives to successful DCCB & PACS staff
- Five to Ten year time horizon



„Hard“ reforms such as depoliticisation, major restructuring, empowering of membership may not be necessary !!!

RCFI reform

---

Source : study by Harper & Ramakrishna ( 2004)



Thank you for your  
patience

Contact us : [nabmcid@vsnl.com](mailto:nabmcid@vsnl.com)  
Visit us at [www.nabard.org](http://www.nabard.org)

## National Bank for Agriculture & Rural Development (NABARD)


Established in 1982 – jointly owned by GoI and RBI

### NABARD AT A GLANCE (March 2005)\*


1	Paid up capital	\$ 454 mil
2	Total business volume	\$ 14,200 mil
3	Total development loans O/S	\$ 11,000 mil
4	Gross income- current year	\$ 766 million
5	Profit after Tax	\$ 212 million
6	Per employee productivity	\$ 2.8 million
7	Risk weighted Capital Adequacy	38.8%
1	Net Non Performing Assets	0.0001%
1	No. of employees	5460



\* Provisional 1\$= Rs 44





**Perspective of Credit Unions  
On Microfinance**




**Association of Asian  
Confederation of Credit Union**

**Ranjith Hettiarachchi**  
Chief Executive officer



**CUMI  
Credit Unions Microfinance  
Innovation**




**New area:** Laos, Cambodia,  
Vietnam, Mongolia, China  
Iran, Pakistan Myanmar

**Developed movement**  
Korea, Taiwan,  
Singapore

**Consolidation**  
Hong Kong, Thailand,  
Philippines, Malaysia,  
PNG

**Developing movement**  
Indonesia, Nepal,  
Bangladesh, Sri Lanka





## In Asia

# •IT IS A BIG MARKET 900 million people

It is very easy to achieve positive growth rate for credit union if they have less market segment will be tapped

## *Today ACCU is Boasting...*



	2003	2004	Growth
No Cus	15,494	20,997	35%
No of Members Million	10,5	11.6	10%
Total Savings US\$ Billion	24,9	26.5	6.4%
Total Loan outstanding Billion	14,5	19.00	31.0
Total Assets Billion	27,08	30.00	10%
Regular members	14	15	7%
Affiliated Member	6	13	46 %

**“34 years of Dedicated Service to CU Development in Asia”**

**Organized in 1971 April 28 with 5 Founding Members**

The graphic consists of five interlocking puzzle pieces arranged in a cross shape. The top piece is labeled 'Japan', the right piece is 'Republic of China - Taiwan', the center piece is 'Korea', the bottom piece is 'Philippines', and the left piece is unlabeled.

**Today: Regular Members**

- Credit Union League of Bangladesh
- Credit Union Coordination of Indonesia
- Credit Union League of Hong Kong
- Credit Union Promotion Club- Malaysia
- Credit Union League of the Republic of China - Taiwan
- Credit Union League of Thailand
- Federation of Savings and Credit Cooperatives - Thailand
- Federation of Thrift & Credit Cooperatives Societies - Sri Lanka
- Japan Credit Union
- National Credit Union Federation of Korea
- Nepal Federation of Savings & Credit Cooperatives
- Philippine Federation of Credit Cooperatives
- National confederation of Cooperatives in Philippines
- Federation of Savings and loan Society Ltd PNG
- Central Peoples Credit Fund Vietnam



## 15 Affiliate Members

- USA-CUNA Mutual Group
- Australia-Credit Union Foundation Australia
- Germany-International Raiffeisen Union
- Japan- Research Institute of Labour Banks
- Singapore National Cooperative Federation Ltd.
- Iran-Moi-Al-Movahedin Credit Cooperative
- Iran -Central Credit Cooperative Union of Islamic of Iran
- Cambodian Community Savings Federation
- India-Development Promotion Group
- India- Maharashtra State Coop. Credit Society Federation Ltd
- Nepal-USC Nepal
- Mauritius-Vacoas Popular Multi-Purpose
- Russia-Credit Union Federation of the Far East and Baikal Region
- Mongolia-Mongolia Confederation of Credit Unions
- Pakistan- Social Catholic Services



## 12 Supporter Members in 6 countries

### Australia

- Sydney Credit Union
- WAW Credit Union
- NSW Teachers Credit Union

### Korea

- Banglim Credit Union
- Yeosu-Kyondong Credit Union

### Philippines

- Baguio-Benguet Community Cooperative
- Barangka Credit Cooperative
- St. Martin of Tours Credit Cooperative

### Malaysia

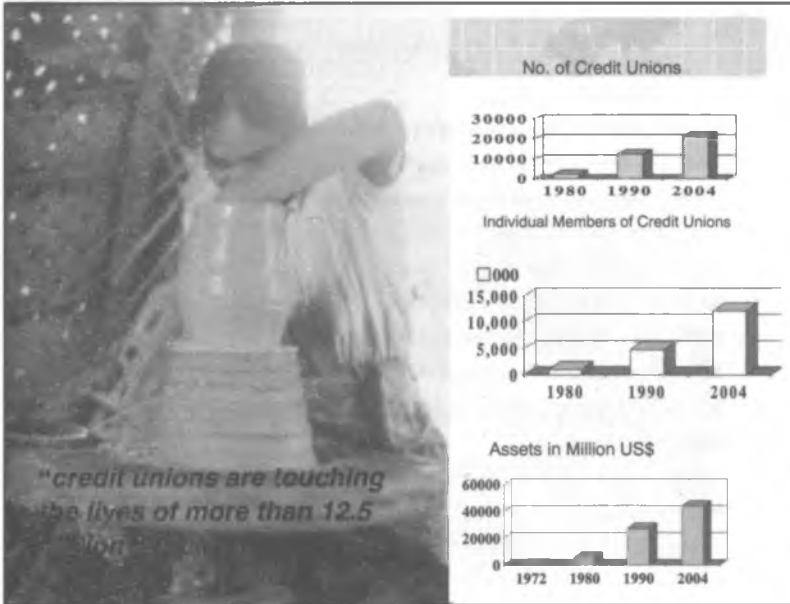
- Koperasi Serbaguna Pekerja-Pekerja Malaysia Berhad

### Papua New Guinea

- PNG Police & State Services Savings and Loan Society Ltd.

### Thailand

- Chumchom Klong Chan Credit Union Ltd.
- Saong Kiang Thewa Credit Union Cooperative

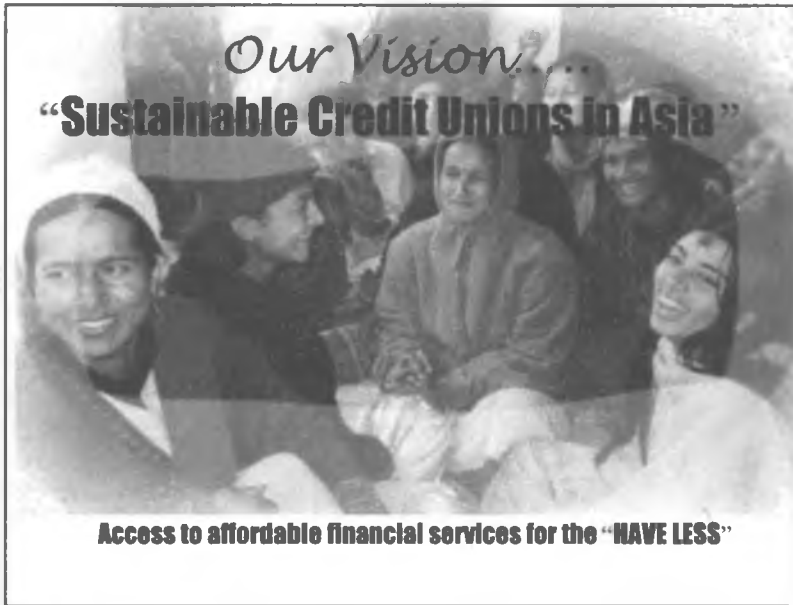


## Terminology:

Credit Unions used in this presentation refers to credit cooperatives

Credit unions is a universal term for credit cooperatives





<i>World population in Billions</i>	<i>“Have More”</i>	<i>“Have Less”</i>
<i>2004</i>	<i>1.1</i>	<i>5.2</i>
<i>2050</i>	<i>1.1</i>	<i>7.3</i>
<i>Access to Affordable Financial Services</i>	<i>80%</i>	<i>20%</i>
<i>Consumers Service to Members</i>	<i>20%</i>	<i>80%</i>



***“Poor do save and  
repay loans on time”  
...CUMI Methodology  
and Policy***

**“SMALL SAVINGS MAKE BIG CHANGES”**

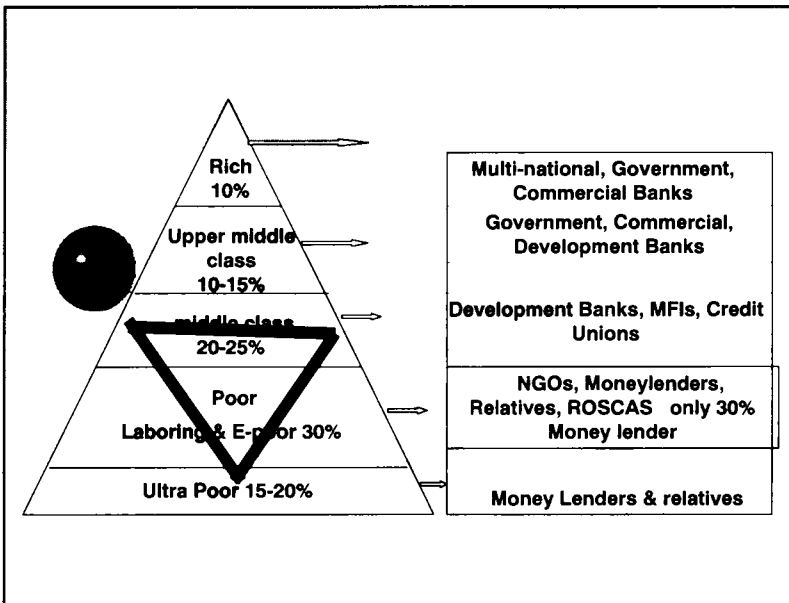


***“Revolution on Financing  
without collateral with out  
savings  
“in Grammen Methodology  
in 1976” But today savings  
is intergraded”  
it is coop methodology 150  
years***



**What is unlimited liability?  
Credit Cooperatives  
india 1907**

***What is solidarity group ?  
What is development***



## Let us revisit our Mission...



**Providing financial services that is available to the community regardless of social status**

**...we are building better communities**

*Credit Unions: Formal Sector Alternative for Microfinance*

## Therefore cooperative



**.....is for everyone whether rich or poor, women and youth... this is the beauty of the credit union!**

***Are we fulfilling our Mission?***

**How do we play important role on the lives of our members, communities?  
...in the given environment, situation and resources?????**



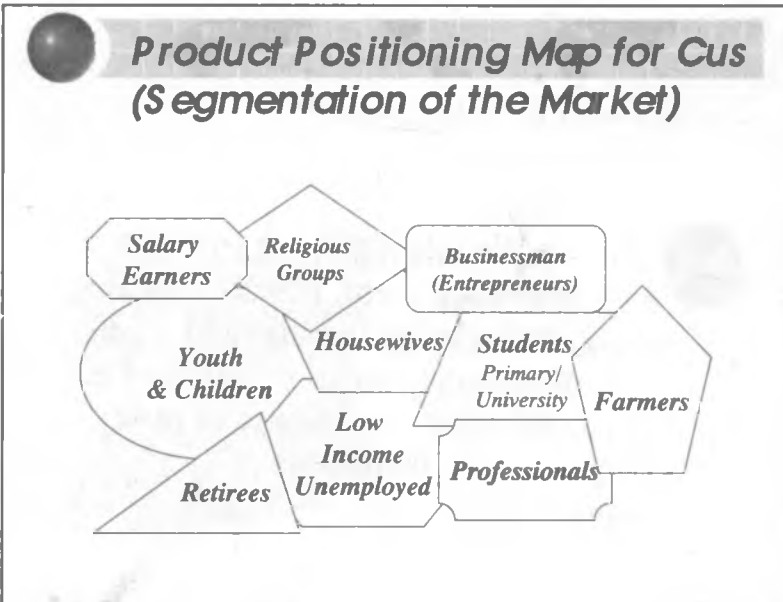
***Are we really reaching our Diverse Membership?***

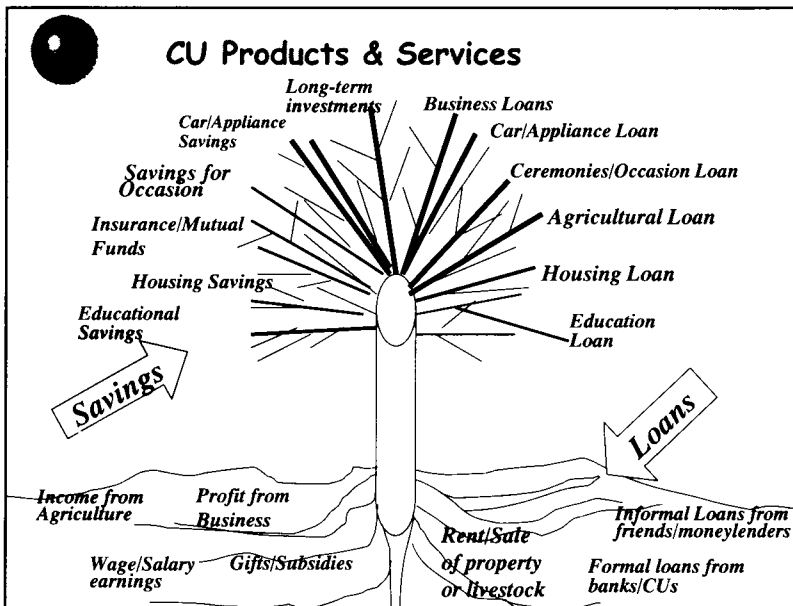
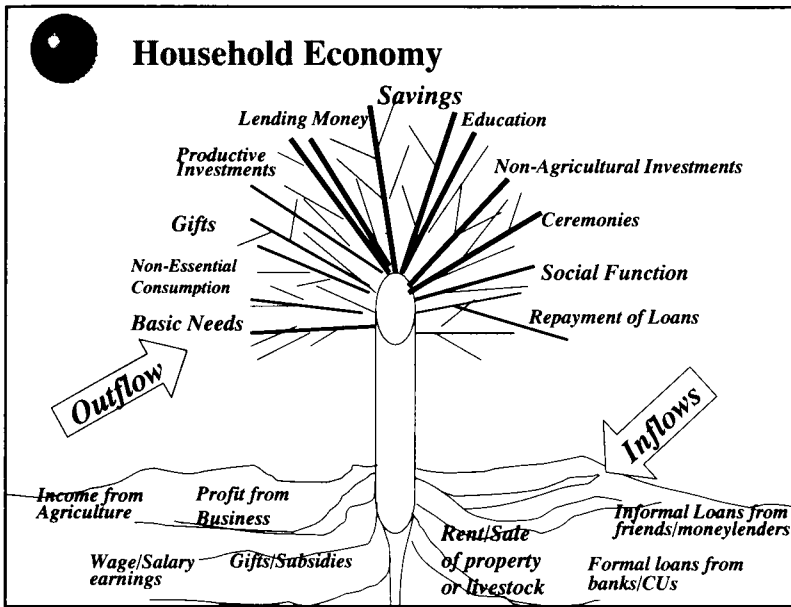
***...Including the poor?***

**We might not intentionally neglecting them, but our products and services (savings and credit programs) cannot be accessed by the poor..... Because of policy limitations.....**



*Microfinance  
Innovation in  
Credit Unions  
....Revival???*





## ***We have a new product !***

### **MICROFINANCE**

#### **What is micro-finance?**



Micro-finance is the sustainable provision of financial services - usually savings & credit facilities - to economically active & poor households who lack access to the formal financial sector.

**Microfinance is a development tool to improve living condition of the have less.....**

## **who are our target?**



PEOPLE LIVING IN POVERTY.....Those poor potential members in our community.....

- No access to formal financial institutions
- Willing to learn
- Economically active
- With family income below poverty line..with family income of US\$ 25to 50

**Cooperative's**  
**Microfinance is**

**Poor should develop habit of savings  
to free them from dependency**  
**No sort cut for development ...**



Association of Asian Confederation of Credit Unions

**Credit Union's Microfinance aims that ...**

- **Poor should develop habit of savings to free them from dependency**

**No short cut for development...**



*Accumulation of wealth  
through savings*



**Microfinance is....**

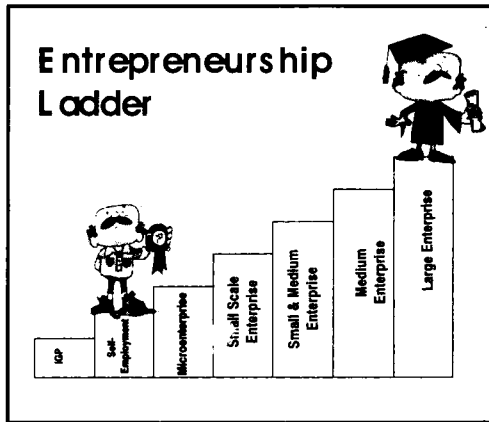
**A tightly integrated *financial* and *educational* service designed for entrepreneurial poor (e-poor) capable of engaging successfully in *micro-enterprises*.**



**Association of Asian Confederation of Credit Unions**

***Our innovation in the Cooperative Finance is ....***

***Built in a support for entrepreneurship graduation***







*Credit Union Microfinance  
Innovation - CUMI*

*Reaching out to "have less" who do not have access to  
affordable financial services*



**Our modest achievement....**

Our partnership with members enabled "Have Less" build wealth through savings and access an affordable financial services.

**A Savings Based Approach  
to Microfinance**

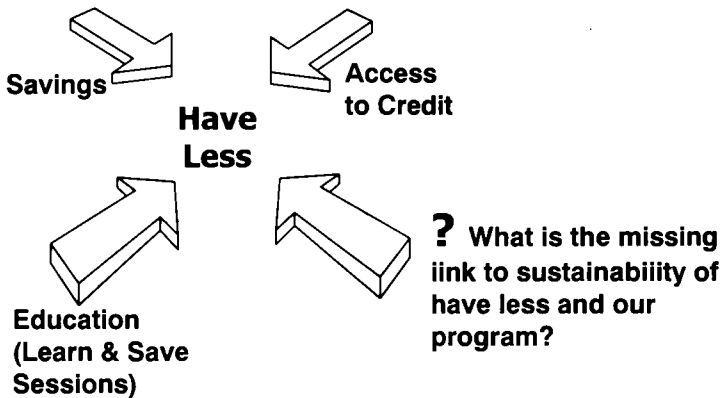


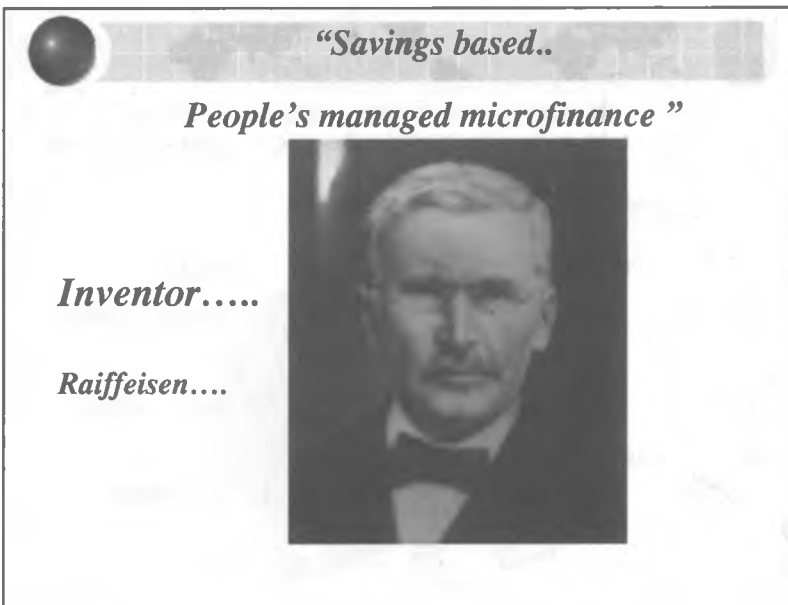
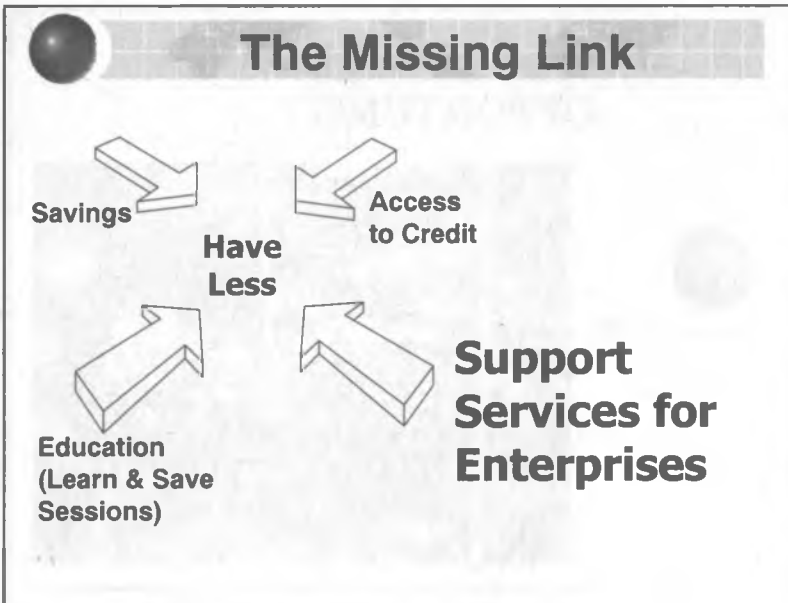
## Outreach and Savings

Country	No. of CUs	New Members	Savings Mobilized US\$
Nepal	47	6,787	84,599
Cambodia	85	12,807	112,797
Indonesia	34	11,316	498,700
Philippines	69	23,635	612,958
Sri Lanka	67	2,886	27,807
Vietnam	87	19,699	706,721
<b>Total</b>	<b>389</b>	<b>77130</b>	<b>2,043,582</b>



## The Missing Link

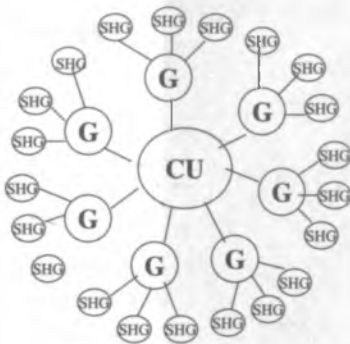




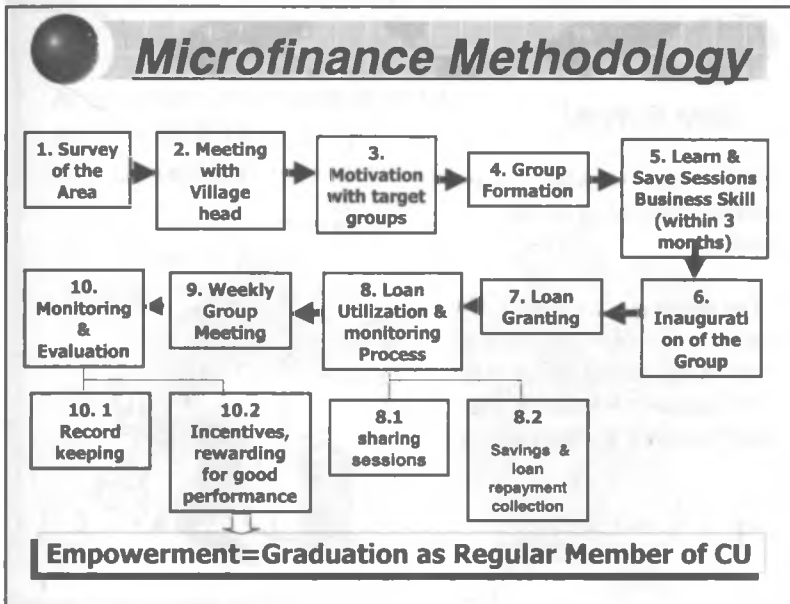
**Poor people need only an OPPORTUNITY...**



We introduce innovation to our organizational structure to accommodate the poor... a friendly one!



-  **Credit Unions Level**
-  **Group Level**
-  **SHG Level**



### Association of Asian Confederation of Credit Unions

**Area Survey.....**

1



### **Area Survey.....**

NGOs and Foundations are already working in the area....

The program is credit oriented, e-poor are clients but in the credit union they are member-owners of the the financial institution ....




### **Meeting with the Village Head**

This is safety net of mutual benefit... the program reduces social problems in the community.

However, credit union s delinquency can be avoided, the Captain vouched for the character of the e-poor






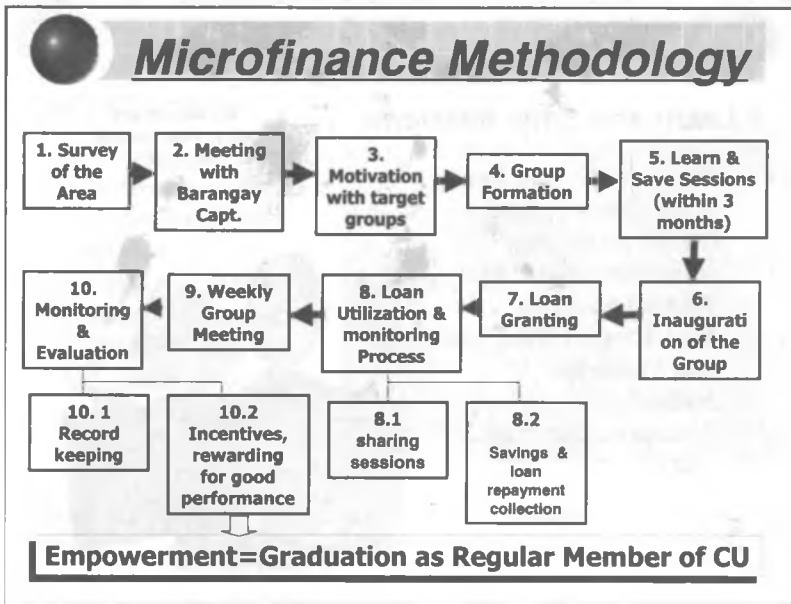
### Motivating the have less to form a Self-Help Group

Group is formed voluntarily, they choose their own members whom they trust..

This is how your group help each other....



**3**





**Group Formation...**

**The bonding, savings,  
and the Learn and  
Save Sessions  
Start....**

How the credit union helps you fulfill your dreams?



4



**5 Learn and Save Sessions....**

- Cooperation-SHG and in the Credit Union
- Family Budgeting- importance of Savings
- Values Formation
- Your Credit Union, your own Financial Institution
- Enterprise Development BDC

We are always deficit every month, Ms. Leni!



5





### ***Inauguration of the group...***

- Group recognition test...
- Recognizing the group's bonding & practice of discipline—Certificate of Graduation given by the coop
- They are now eligible to access the loan product of the coop



*Inauguration of one of the groups in PIMC*



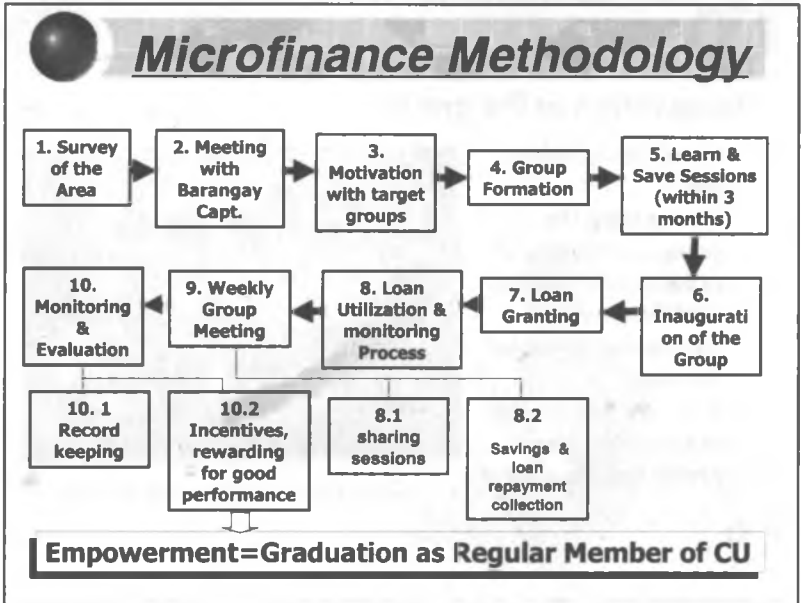
### ***Loan Granting....***



- The loan is based on the identified enterprise that generates daily cash flow
- Loan is only for working capital Pesos 1,500-3,000 with an increase of 50% on the succeeding cycles
- Joint liability



*Credit Union staff releasing the loan to the members*







### **Loan Utilization & Monitoring Process (LUMP)...**

**The coop staff is ensuring the loan has been used for the intended purpose...**







### **CUMI Characteristic**

The proposed product will be a microfinance and microenterprise which shall cater to the needs of the poor in ... who are non members of the cooperatives and engaged in various livelihood activities.

CU who are willing to open additional product and services for the **POTENTIAL HUGE MARKET**



### ***An Experience***

#### **During the Learn and Save Session:**

- Deposit undertaking (initial savings minimum of # 5.00 per day in two (3) months total amount of US\$ 5 to 6
- Formation of Self help Group/ Association
- Actual ocular survey of business, Interview and Credit Investigation
- Loan Product range from US\$ 20 to 30



### *An Experience*

During the Learn and Save Session:

- Increase gradual basis base on repayment
- Weekly savings weekly meting
- Loan Repayment as a package, Principle, Interest and savings



### *Experience*

- To graduate from artificial bonding
- Decision Making and discipline
- After four or five cycle become regular member



### *Experience*

Weekly SHG meeting (informal training, updates of savings and loan payment and monitoring)

- Daily collection of savings + principal + interest incorporate into one
- Loan Cycle between 2 – 4 months
- Informal Training is a value added attraction of the methodology



### *Experience*

Bi-Monthly Manager and weekly monitoring meeting for partners CU

Monthly diagnostic using PEARLS Monitoring System

poverty alleviation is a process –

proper governance in non negotiable



*Savings and Loan Product:*

**Mandatory Savings**

- Minimal amount saved start during the LSS onward (daily basis)
- After a loan cycle 50% (mandatory savings) transfer to Share Capital as initial deposit



*Savings and Loan Product:*

**Group Fund (voluntary savings)**

- Fixed amount agreed upon by the Self Help Group and association members
- Utilizes as buffer or reserves fund



*Product.....*

### **Share Capital**

- Instalment deposit at the end of the cycle for share capital requirement of the CU basis for GRADUATION



### **Loan Product:**

#### **LOAN GRANTING PROCESS:**

- Loan Eligibility of SHG Members
- Loan Procedure
- Initial Loan Amount
- Maximum Loan Amount
- Interest Rate
- Length of Each Cycle



### **Loan Product:**

**PROCESS.....:**

- Frequency of Loan Payment
- Delinquent Loan
- Penalty for late payments
- Early repayments
- Grace period
- Eligibility of Subsequent loan
- Loan Insurance (death/disability)



### **EDUCATION DESIGN FOR SELF HELP GROUP**

**Non formal adult education Short  
Learning Session**

- Self Help Group enhancing self confidence and decision making skills
- Health and Nutrition
- Simple Bookkeeping and micro enterprise development





## **INSTITUTIONAL DEVELOPMENT FOR CREDIT UNIONS**

### **KEY RESULT AREA:**

#### **Credit Management**

**Management Information System**

**Loan Policy Review**

**Delinquency and Collection**

**Truth in Lending**

#### **Human Resource**

**HRD Policy Manual**

**Human Resource Management**

#### **Organizational Structure**

**BOD/Committeemen Training**

**Membership Recruitment Policy and Common Logo**



## **•Institutional Capacity Development**

#### **Product and Services**

**Pricing Policy**

**Marketing and enhancing saving and loan product**

**CUMI Program**

#### **Financial Management**

**PEARLS Monitoring System**

**Financial Discipline**

**Internal Control System**

**Standard Chart of Account and Reporting**

#### **Monitoring and Evaluation**



## ***What are the challengers ?***

**Insurance System ?**

**Adherence of the CUMI Methodology ?**

**Operational Risk ?**

**Government supply led credit?**

**Not appropriate financial provision or back up for CUMI ?**

**Still the general impression that the poor are not bankable?**

**Unprofessional management**



## ***Weekly Group Meetings....***

**Sharing, collection of loan repayment & savings, skills training or anything goes....**



***Sikap MPC***

### **Weekly Group Meetings....**



*A Group leader remitting collection to the cooperative – Metro Rail MPC*

### **Monitoring and Evaluation**

- Rationalize the set goals
- Review of tactical plan... is reaching the goals?
- Planning
- Policy concerns

*Walking through a small passage to a member's home in a slum area in Manila...*

**Monitoring and Evaluation**

**Partner level....**



*In one of the capacity building trainings of the staff of partners... presentation skills*

**The project staff providing technical assistance to partners**

**Monitoring and Evaluation**

**National Level....**



*Dave, the national coordinator and Ed, NCR Manager with ACCU's CEO and Manager for Member Services in one of the review meeting in 2002 June*









### **Monitoring and Evaluation**

**ACCU-CUFA Level.....looking at the big picture**



*CUFA seeing for themselves the achievements and challenges of partner cooperatives....*



## **Monitoring and Evaluation**

**ACCU-CUFA Level.....looking at the big picture**



*The review meeting in June 2005 with 7 League Managers.. At present 4 Leagues are implementing the program as inspired by NCR League...*

# **Thank You**

**– Credit Unions: Creating  
Opportunities for all**


**QUALITY CREDIT UNIONS FOR  
EVERYONE**



# ICA REGIONAL WORKSHOP

GOA - INDIA  
18-21 October 2005

**P.A. Kiriwandeniya**  
Leader - SANASA Movement  
Chairman - SANASA Development Bank Ltd.,



# COOPERATIVES & MICROFINANCE



**Sri Lankan Experience**

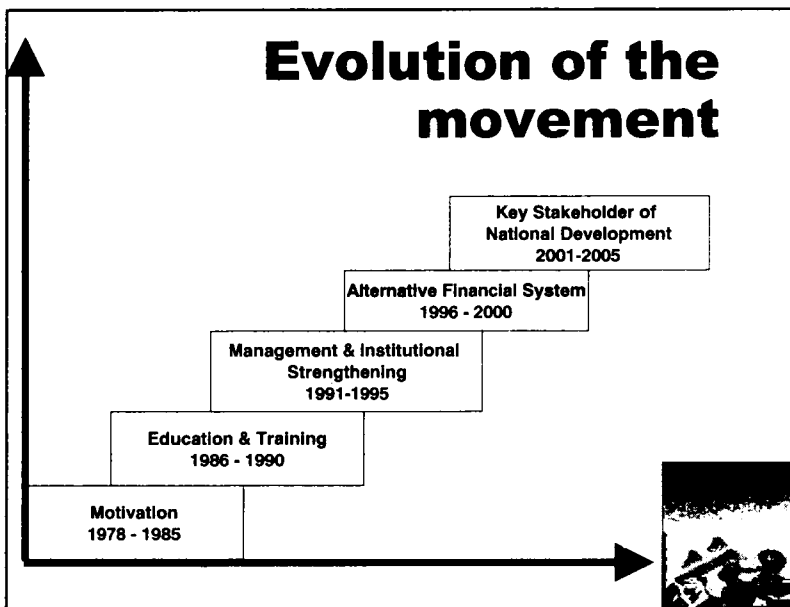
19/10/2005 2 P.A. Kiriwandeniya - SANASA

# SANASA

- ◆ A fully indigenous & community based organization
- ◆ Network of 8440 registered Savings & Credit Co-operatives
- ◆ 850,000 membership
- ◆ A first co-operative model of Sri Lanka with 100 years of experience
- ◆ 1978 was the benchmark year to SANASA.
- ◆ One of a ICA research study helped me to do changes in the Sanasa development path



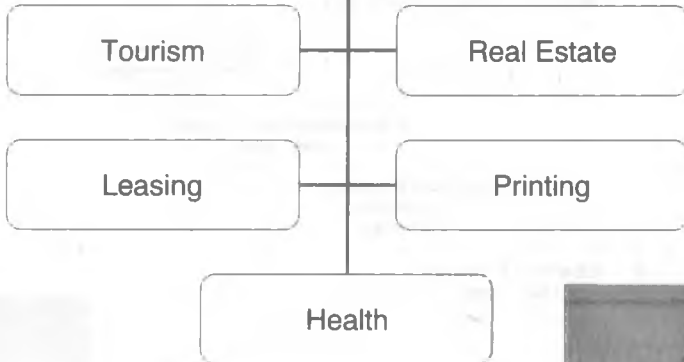
## Evolution of the movement



# SANASA TODAY



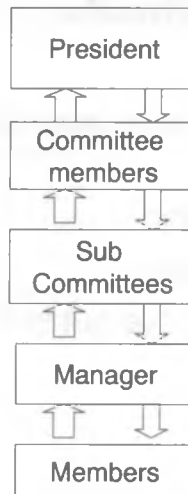
## POTENTIAL FOR FUTURE TRADE ASSOCIATION



## A Primary Society

- ◆ A community based, grass root level thrift & credit Co-operatives
  - ❖ Objectives
    - Improve the Quality of life of low and middle income groups
    - Social integration through co-operative enterprises
    - Involve in national development in a proactive manner

### STRUCTURE OF A PRIMARY SOCIETY



## Characteristic of a PS

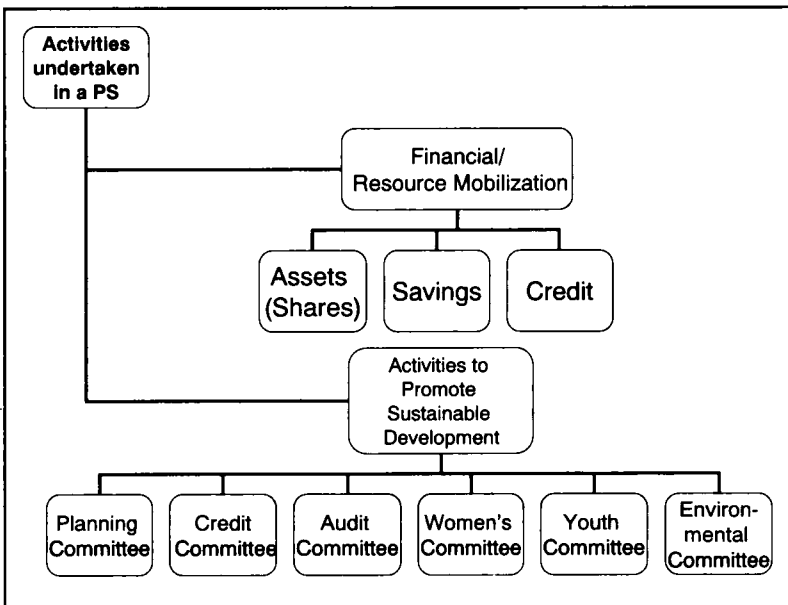
- ◆ ***Democratic institution engaged in participatory processes***
  - ◆ leadership is elected annually.
  - ◆ Monthly meeting
- ◆ ***Accountable and transparent***
  - ◆ Audited by the department of co-operatives
  - ◆ The loan approvals are made by the credit committee
  - ◆ All earnings and expenditure are shared at the monthly general meeting.
- ◆ ***Promote self reliance and community empowerment***
  - ◆ All members are encouraged to save.
  - ◆ Members receive various capacity building training.
  - ◆ ***Committed to sustainable development***



## Opportunities available for low income households

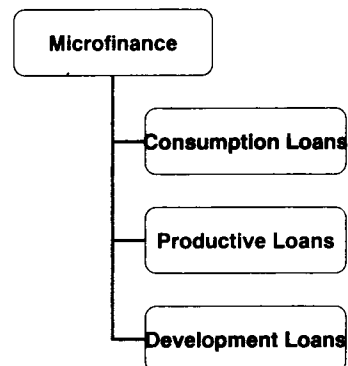
- ◆ Opportunity to save according to their capacity.
- ◆ Social recognition
- ◆ Plan your destiny
- ◆ Clear path to move out from poverty





## Providing Credit

- ◆ Most loan services issued by SANASA primary societies fall in the micro finance loan range. i.e., below R.50,000/=. However there are some societies who provide loans up to Rs.500,000/=. Any loan larger than that, we have advised the primary societies to deliver through the bank in order to mitigate the risks.
- ◆ In micro finance, three kinds of loans are paid attention.



## Challenges

- ◆ Donors who see micro finance as a magical solution to poverty alleviation implement short projects paying little or no attention to the existing MFIs, and the credit cultures.
- ◆ INGOs with short term projects offer attractive salary packages and fish out the good staff out from local organizations.
- ◆ With lots of left over relief money, a large number of organizations create a national culture of non-payment developing.
- ◆ Many micro finance has become a passion rather than a commitment. (Elite group as global experts)

## What we learnt in this Journey

- ◆ MF is a tool, not a solution. Micro finance must be put in the larger socio-economic context rather than being implemented in a piecemeal approach.
- ◆ Microfinance is a starting point. It is not an end in itself.
- ◆ Microfinance must be understood as one component of development finance.
- ◆ Not banking linkages, but banks owned by poor.
- ◆ Micro credit deals with the most vulnerable groups of the community.
- ◆ It is a high risk credit type and must go hand in hand with micro insurance.
- ◆ Micro leasing. Leasing, like insurance is still a commodity available for urban based middle and upper income groups.



## **SANASA**

SANASA is a movement organized by voluntary co-operative leaders who are to a large extent simple people of Sri Lanka. It is not a movement run by “development experts” nor is it held by sophisticated MIS systems and technologies.

## **SANASA**

Yet in a development context where many networks fall apart after a project fund is over, 8,000 co-operative societies, that are legally autonomous, geographically separate, with ethnically and economically diverse membership are held together for well over 30 years.

# **SANASA**

That is because we believe in co-operative principles and our theories are nothing but those we learnt from our successes and failures.

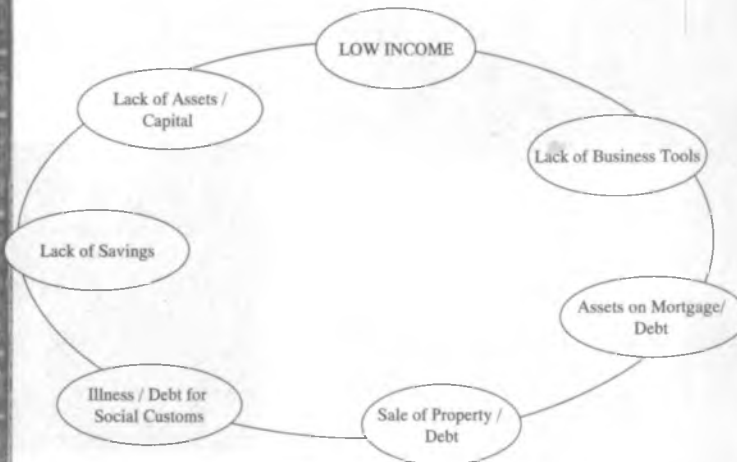
# **Thank you all**



## Integrated Social Protection: SEWA'S EXPERIENCE



## VICIOUS CIRCLE OF POVERTY



## SEWA – Evolution From Union to Movement



- Self Employed Women's Association (SEWA) is a labour union founded by Shri Ela Bhatt in 1972
- It is a confluence of three movements
  - Labour movement
  - Co-operative movement
  - Women's movement
- Member-based movement of 7,00,000 poor, informal sector women workers of India
- SEWA's presence is in Asia, Africa, Europe and the USA
- SEWA works in 7 states and 14 districts of India
- Rural membership – 3,21,699 members
- Urban membership – 1,46,746 members



## SEWA's Goal



Total empowerment of women through full employment and self reliance

### Objectives

- Full Employment
- Self Reliance



## SEWA's Philosophy



- Gandhian Approach
- Social Empowerment through Economic Empowerment
- Leadership of women



## SEWA's Strategy



- Effective use of resource persons/link institutions
- Globalization's ill effect prone members
- Livelihood promotion/Ensuring Backup employment
- Social Security- H.C., C.C., Insurance, Housing, Savings
- Struggle and development capacity building trainings
- Research and documentation
- Coping up with the calamities

SEWA

## SEWA's Integrated Approach

<p><b><u>Organizing</u></b> Collective organized strength through their associations to actively participate in the planning, implementation and monitoring processes of the programmes meant for them and also in all other affairs of the nation</p>	<p>⇒ <b><u>Capacity Building</u></b> To stand firm in the competitive markets i.e access to infrastructure, technology, information, education, knowledge, and relevant skills. Assets ownership is the surest weapon to fight vulnerability to poverty</p>
<p><b><u>Social Security</u></b> At least health care, child care, shelter and relief- to combat the chronic risks faced by them and their families</p>	<p>⇒ <b><u>Capital Formation</u></b> At the household level through access to financial services to build and create assets of their own.</p>

Members become owners and managers of their own trade.

SEWA

## Need For Integrated Social Protection (ISP)

- Large membership
- Widespread area
- Complex activities
- Cost Reduction
- Thrust on capacity building
- Greater effectiveness in members' cooperation

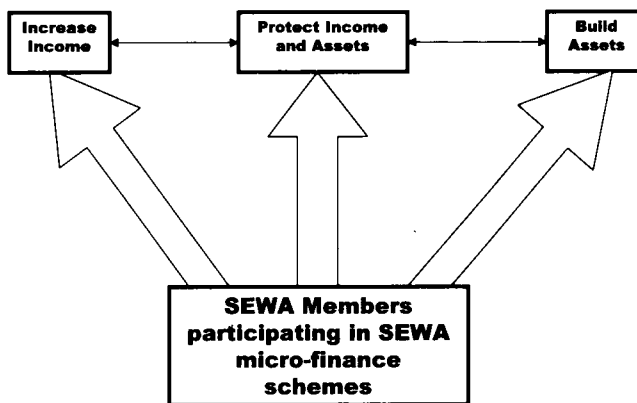
## ISP - Process



- ◆ Components – Membership fee, Association fee, Insurance premium, Livelihood Security Fund (LSF), Savings
- ◆ Collective Fund
- ◆ Each member has to submit *sammati patrak*
- ◆ Fund amount is deposited in Bank. District association manages the Fund.
- ◆ LSF is compulsory for minimum 5 years
- ◆ Savings in equal amount in a group ( 1 day wage of month)

The goal of micro-finance services is to help SEWA members achieve:

## ECONOMIC SECURITY

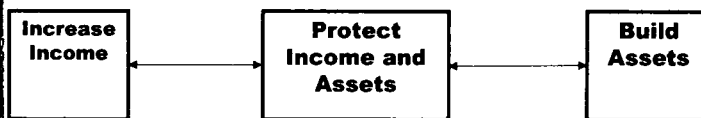


## Economic Security and Micro-Finance



Economic Security requires a connection between income, assets and protection of income/assets.

This is called the Economic Security Chain.



**Micro-Finance Services are one way to help low-income people achieve Economic Security.**

## SEWA – Experiences And Achievements



- 4408 *Swashrayee Mandals* (SHGs) in savings
  - 709 under ISPM – 12683 members
- Amount of savings as on 2.27 crores
- No. of members 100,000
- Repayment 90%
- EXPERIENCES in
  - Loan utilisation
  - Repayments
  - Attitude towards borrowing



## Challenges Faced And Lessons Learnt – Implications

- Locating suitable borrowers
- Sanctioning process
- Repayment
- Utilisation of loan money

*THANK YOU*



# Microfinance in Philippine Cooperatives



Presented by: **Siegfred O. Buagas**

Chief Executive Officer

Fairchild Cebu Community Credit Cooperative (F4C)

Mactan Economic Zone, Lapu-Lapu City, Cebu

Philippines 6015

Email: [gabby@info.com.ph](mailto:gabby@info.com.ph)

FAIRCHILD



A Member of NATCCO

## background

- **Co-ops have a long history**
- **Old definition:**
  - **Social organizations with business objective**
  - **Emphasis on social orientation**



Our future, today.

## COOPs: Major Economic Force

- **More than 60,000 registered cooperatives in the Philippines**
- **Socio-economic units that foster economic growth at the community level**
- **Coops initiate various socio-economic activities**



Our future, today.

## dilema 1

- **Globalization produced confusion**
  - **Should co-ops continue to be social organizations doing business on the side?**
  - **Should co-ops abandon its values and become "professional" commercial institutions?**



Our future, today.

## **dilema 2**

- **Dual exposure to private sector and NGOs have created confusion**
  - **How can co-ops maximize its social programs without sacrificing business goals?**



Our future, today.

## **dilema 3**

- **Experience in government directed credit programs created dependency on government loan program design and focus removing creativity and responsiveness of coops.**



Our future, today.

## **dilema 4**

- **Reliance on government dole outs or subsidized loan funds**
  - Realized that the way to achieving credit sustainability is by assuming full cost of funds.
  - That government and private loan funds are not for charity
  - That social development is costly and sometimes does not have guaranteed return in the immediate term



Our future, today.

## **dilema 5**

- **Dual personality of members**
  - **Member/Owner vs. client/borrower**
    - Coop management must be able to strike a balance



Our future, today.

## THE SOLUTION

- **Paradigm shift!**
- **Business vs. social...**
  - *...that is not the question!*
  - **A new generation co-op is both at the same time.**
  - **Challenge is how to do both competently and efficiently (*cross-cutting but different*).**
    - **The development continuum must be defined. Advocacy must be separated from business activity.**



Our future, today.

## the new generation co-op

- **Business:**
  - **Ensuring that members will have access, more and wider choices, faster and better services anywhere in any co-op in the country... and even in the world!**
    - *Take note: NOT cheap!*



Our future, today.



## the new generation co-op

- **Social**
  - Ensuring that its social enterprises addresses the practical needs and strategic interests of its members and the community.

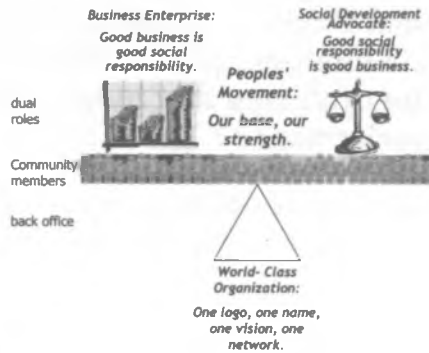


Our future, today.



## the new generation co-op

- **Organizational framework**



Our future, today.

## **Strategic Goal:**

- **Primary Cooperatives: “Members will have**
  - ***Access***
  - ***More and wider choices***
  - ***Lower cost***
  - ***Faster and better services***

**anywhere in any coop in the country and later the world”**



**Our future, today.**

## **The challenge**

- **Cooperatives in the Philippines by definition, are widely performing microfinance functions. To achieve the strategic goal, it must address the problems that hinders optimum performance?**



**Our future, today.**



## The problems besetting coops

- **Loan portfolio management and delinquency control**
- **Lending process improvement**
  - Streamlining credit process and procedure
  - Reduce documentary requirements
- **Accessing low cost funds**
  - internal/external sources
- **Competitive pricing**
- **Maintaining efficiency**
- **Profitability**
  - Statutory reserves
  - Optional allocation
  - ROE



Our future, today.

## What is microfinance?

**It is the viable and sustainable provision of a broad range of financial services (savings and credit) generally, by the private sector to poor and low-income households engaged in the livelihood and micro-enterprise activities using non-traditional and innovative methodologies and approaches** (TWG Regulatory Framework for MF in the Phil)



Our future, today.

## Challenges to successful micro-finance programs

**The success of the member-clients is the success of the micro-finance program. Therefore coops/MFIs must:**

- Promote entrepreneurship
- Develop and implement enterprise development programs
- Build member-competence in
  - Business idea generation
  - Business planning
  - Business systems design and installation
  - Production operation
  - Product development and packaging
  - Marketing



Our future, today.

## Microfinance Best Practices in Cooperatives

- Market-driven financial services
- Customer care and servicing
- Emphasis on client selection, not delinquency management
- Charge sustainable or competitive interest rate
- MIS that produces timely, accurate and relevant reports
- Prudent financial management
- Adequate internal control measures
- Strong institutional commitment



Our future, today.

## Market-Driven Financial Services

- **Trend towards bundling financial packages from mono-type financial products**
  - **Loan with technical assistance, consultancy, insurance, etc**
- **Cooperative MFIs offer 'more than just' access to capital**
  - **To retain clients, cooperative MFIs provide other services such as insurance, money remittance etc.**



Our future, today.

## Customer Care and Servicing

- **Establish more payment centers by accrediting other coops or non-coop/MFI as payment centers**
- **Utilize loan releasing facilities such as money remittance centers, ATMs and e-money**
- **Utilize advanced communication technology (sms, internet, website, mobile phones) to regularly communicate to clients:**
  - **Status of loan applications and outstanding accounts**
  - **Promote the coops and its activities**
  - **Inform of his good classification and its equivalent tokens; or poor ratings and its corresponding consequence**



Our future, today.

## Emphasis on Client Selection NOT Delinquency Management

- Trend towards prevention of delinquency rather than cure
- Subscription to credit info bureau for verifying credit standing of borrower and borrower negative listing or blacklisting in case loan is not paid
- Client selection is based on strong cash flow analysis, character and credit/background investigation NOT collateral, share capital and deposits
- Client selection is the main delinquency management strategy
  - Those who do not have resources as equity (financial/non-financial) will not be provided credit but probably social welfare from DSWD or charitable institutions.



Our future, today.

## Charge Sustainable Interest Rates

- Interest Rate covers:
  - Administrative Expenses
  - Cost of Funds
  - Inflation
  - Capitalization for Growth
  - Loan Losses
  - Statutory reserves
  - ROE



Our future, today.

## **MIS = Timely, Accurate and Relevant Reports**

- **Computerize data capture, storage and processing**
- **Automate report generation and other processes**
  - **Tracks COOP-PESOS-a financial and management performance rating system for cooperatives**
  - **Trended data on repayment rate to portfolio at risk**
  - **Able to track missed payments and portfolio at risk on time**
  - **Shows the portfolio performance of the account officer**
- **Generates aging of accounts**



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## **Prudent Financial Management**

- **Recognizes adequate loan loss provisioning**
- **Clear policy on write offs (does not mean collection is foregone)**
- **Ensure to charge full costs to services**
- **Charge competitive loan interest rate to clients**
- **Endeavor to achieve sustainable margin**
- **Reliance on savings from members rather than donor funds or external borrowing**



Our future, today.

## **Adequate Internal Control Measures**

- **Clear supervisory power**
  - Separation of functions
- **Conduct regular external audit of the coop/MFI.**
- **Monitor fund usage and Random check borrowers**



Our future, today.

## **Strong Institutional Commitment**

- **Coop/MFI**
  - **Microfinance operations as a social enterprise not as subsidized credit**
  - **Clear strategic plan that reflects how vision, mission and objectives will be achieved**
  - **Governance structure responds to the peculiar needs of microfinance operations**
  - **Incentive program for employees**



Our future, today.

## **Strong Institutional Commitment**

- **The Government's vision for Microfinance**
  - **To have a viable and sustainable private (micro) financial market.**
    - **This will be achieved in a liberalized and market-oriented economy where the private sector plays a major role and the government provides enabling environment (through appropriate policy and institutional framework) for the efficient functioning of the markets**



Our future, today.

## **Strong Institutional Commitment**

- **The government's enabling documents and regulations in its pursuit to put the coops/MFIs under a regulated environment:**
  - **Standard PMES course**
  - **Accreditation of coop trainers**
  - **Accredit external coop auditors (CPA's)**
  - **Standard Chart of Accounts (SCA)**
  - **Coop performance standards and rating system (COOP-PESOS)**
  - **Performance standards of MFIs**
  - **On going consultation: regulation on licensing savings and credit cooperatives**



Our future, today.

maraming salamat po!  
maraming salamat po!



Our future, today.

**Performance  
Standards for MFIs in  
the Philippines**



## **Purpose**

- **To allow greater transparency in the operations of MFIs.**
- **More particularly, the standards will provide the user the basic tools that will facilitate the evaluation of any type of MFI and compare its financial performance with that of other MFIs, regardless of whether it is a bank cooperative or an NGO.**



Our future, today.

## **Who will benefit?**

- **MFI management**
- **Appropriate regulatory authorities**
- **Wholesale financial institutions (government and private)**
- **Donor agencies**
- **Domestic and international private investors**
- **Rating agencies**
- **Social policy institutions**



Our future, today.

## General features

- Client come from the low-income sector, lack assets for collateral, usually self-employed in the informal sector, and are engage in economic livelihood activities
- Grant of loans is based on the borrower's household's net cash flow
- Non-traditional forms of security are acceptable
- Documentation requirements are simple, loan processing is fast and loan release is timely
- Lending methodology maybe on a group or individual basis
- Loan sizes are typically small, not exceeding P150,000.00



Our future, today.

Loans are typically short-term and amortizations are either on the daily weekly, semi-monthly or monthly basis.

## Minimum institutional criteria in evaluating MFI

- **Institutional viability**
  - CAMELS rating for banks of at least 3
  - COOP-PESOS rating for coops with savings an credit services of at least 70 with net institutional capital to total assets ration of not lower than 5%



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- **Governance**

- **the institution is regularly audited by an independent external auditor**
  - **Banks by BSP**
  - **Coops by CDA accredited external auditor**
  - **NGOs by auditors certified by PICPA**
- **Audited financial statements are readily available**



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- **Operation**

- **Presence of program objective to reach the poor**
- **Active MF clients, classified by gender**
  - **Group lending – 500**
  - **Individual lending - 200**
- **At least one year in MF operations**
- **Presence of effective MIS**
  - **Basic financial reports**
  - **Loans tracking**
  - **Aging reports using PAR**



Our future, today.

**Manual of operations or product manual**  
**With at least two full time account officer for MF operations**

## Performance Standards for MF

After meeting the institutional criteria, the MF operations shall be subjected to the following performance standards

- **Portfolio quality**
  - 1.1 Portfolio at Risk
  - 1.2 Loan loss reserve
- **Efficiency**
  - 2.1 administrative efficiency
  - 2.2 operational self-sufficiency
  - 2.3 loan officer productivity
- **Sustainability**
  - 3.1 financial self-sustainability
  - 3.2 loan portfolio profitability
- **Outreach**
  - 4.1 growth in number of active MF clients
  - 4.2 growth in MF loan portfolio
  - 4.3 Depth of outreach



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## Regulatory Framework for MF in the Philippines

## Rationale

- The government recognizes MF as one of the important tool in the government's fight against poverty
- The government's MF policy is built on the following principles:
  - greater role of the private sector (MFIs) in the provision of financial services;
  - an enabling policy environment that will facilitate the increased participation of the private sector in micro finance;
  - market-oriented financial and credit policies, e.g. market-oriented interest rates on loan and deposits;
  - non-participation of government line agencies in the implementation of credit and guarantee programs.



Our future, today.

## What is microfinance?

**It is the viable and sustainable provision of a broad range of financial services (savings and credit) generally, by the private sector to poor and low-income households engaged in the livelihood and micro-enterprise activities using non-traditional and innovative methodologies and approaches** (TWG Regulatory Framework for MF in the Phil)



Our future, today.

## Vision for MF

- **To make MF the cornerstone for poverty alleviation. The vision is to have a viable and sustainable private (micro) financial market. This will be achieved in a liberalized and market-oriented economy where the private sector plays a major role and government provides the enabling environment (through the appropriate policy and institutional framework) for the efficient functioning of the markets. This will be achieved through among other things, the following:**
  - **Adoption of market-based financial and credit policies**
  - **Greater private sector participation in the delivery of MF services to the basic sector**
  - **Establishment of an appropriate regulatory framework for microfinance**



Our future, today.

## Objective

- **To protect the financial system for unsound (excessively risky) practices by deposit-taking institutions (either from the public or its members) and thereby, protect the countrys' payment system**
- **To protect small clients; and**
- **To promote the establishment of an accurate reliable and transparent set of financial information for all types of MFIs.**




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## **Scope of MF regulation**

- **Only institutions taking deposits from the general public and/or from its members are subject to prudential regulation and supervision.**
- **Since MF NGOs are not supposed to take deposits from their clients, they will not be subjected to prudential regulations.**
- **However, those MF NGOs that collect savings beyond the compensating balance will be subjected to the appropriate regulatory agency**




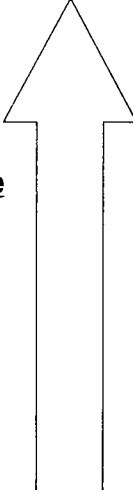
Our future, today.



**Cooperative Sector-**

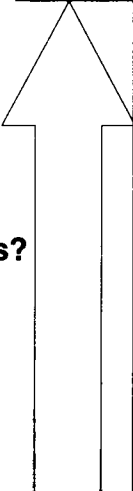
**Changes Required to Operationally Internalize Concept of Micro Finance**

By  
**Bhagwati Prasad**  
CEO, NCUI, New Delhi



**MICRO FINANCE- issues for discussion**

- ❖ **What is Micro Finance ?**
- ❖ **Why Micro Finance ?**
- ❖ **Why Internalization of MF ?**
- ❖ **How Internalization of MF ?**
- ❖ **What is Role of Coops in Credit Operations?**
- ❖ **What is Required to be Done to support Micro Finance?**





### **What is Micro Finance- definition**



**Provision of thrift, credit and other financial services and Products of very small amounts to the poor in rural, semi-urban Or urban areas for enabling them to raise their income levels and improve living standards**

### **What is Micro Finance Institution ?**





**Institution which Provides thrift, Credit and other financial services and products of very small amounts mainly to the poor in Rural, Semi Urban or Urban Areas for enabling them to raise their Income levels and improve living Standards**

**A SMALL HOMOGENIOUS  
AND AFFINTY GROUP OF POORS,  
VOLUNTARILY  
COMING TOGETHER TO....**

**SAVE REGULARLY**



- ❖ **MEETING NEEDS**
- ❖ **COLLECTIVE  
DECISIONS**
- ❖ **COLLATERAL FREE  
LOANS**
- ❖ **MARKET DRIVEN  
RATES**

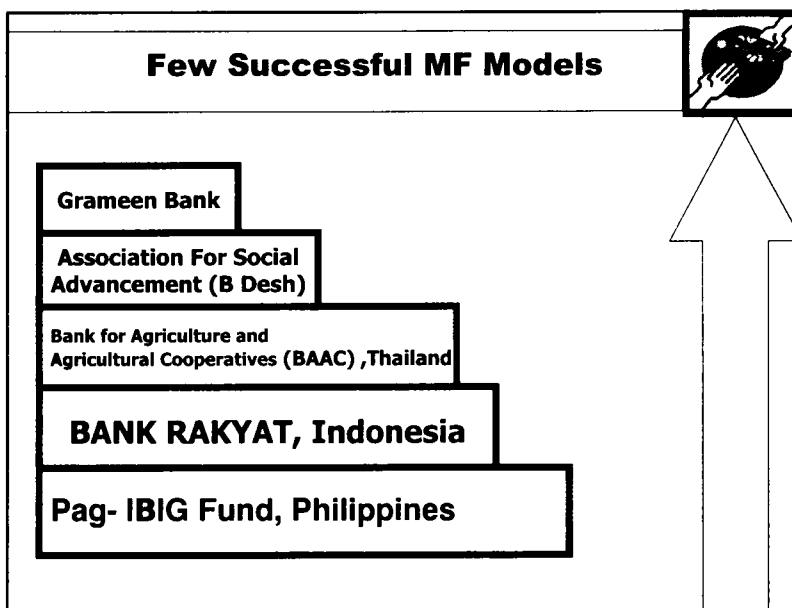
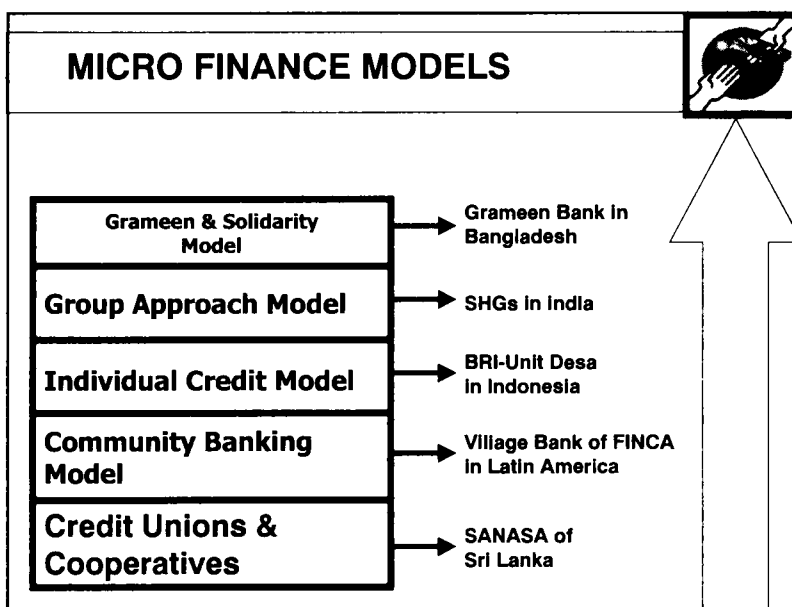
**What is  
SHG?**

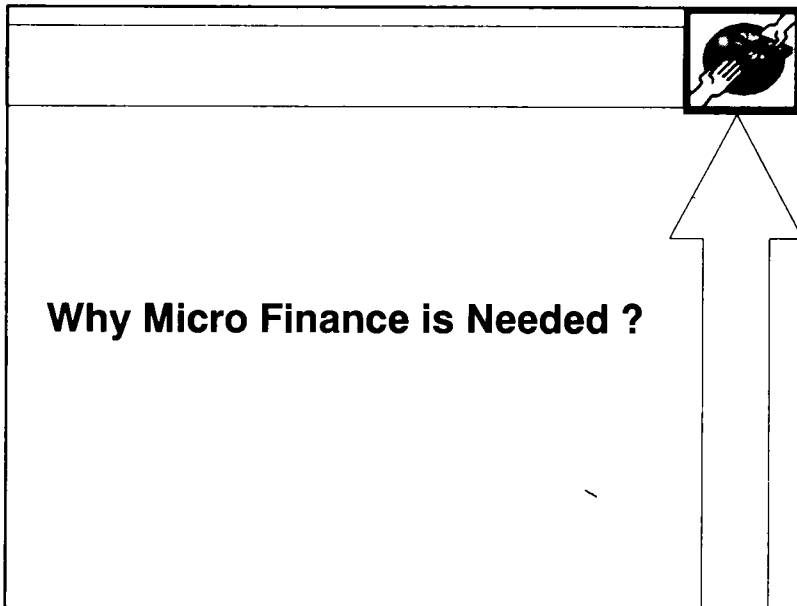
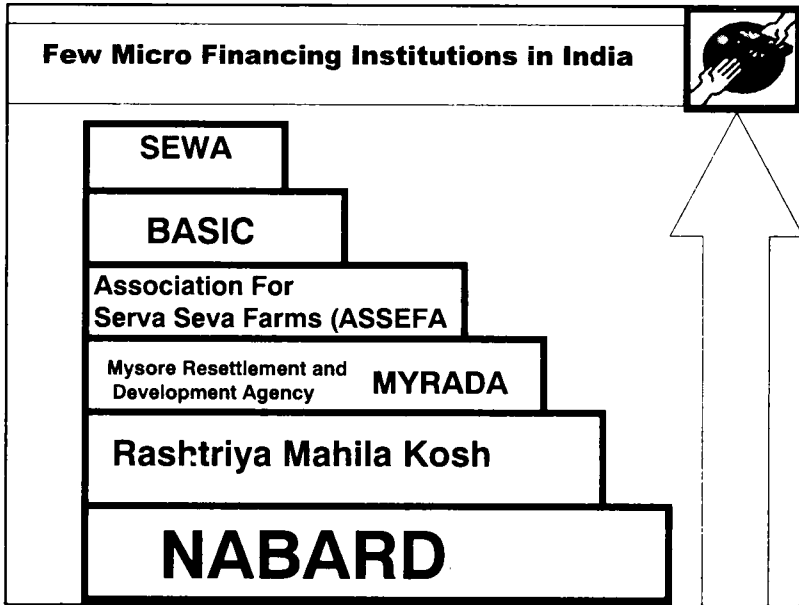




**MICRO FINANCE--characteristics**

- ❖ **Access to Poor**
- ❖ **Access to Credit**
- ❖ **No Collateral**
- ❖ **Women Oriented**
- ❖ **Encourage Savings**
- ❖ **Income Generating Activities**
- ❖ **Peer Pressure For Recovery**
- ❖ **Mutually Agreed Interest Rates**
- ❖ **Commitment, training &  
participation**

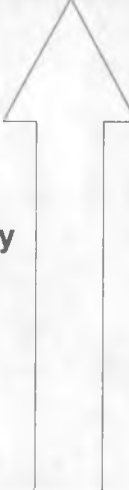










**Why Micro Finance is Needed ?** 

- Poverty
- Poor Impact of Agricultural Credit Delivery



**Agri. Credit delivery system- poor impact** 

- Inadequate Credit
- Recovery Position
- State Interference
- Poor Capital Formation
- Inadequate Monitoring
- Credit Mis (Use)
- Real Beneficiaries
- Natural Disasters
- Refinance Terms
- Informal Credit flow Continued
- ?????????????







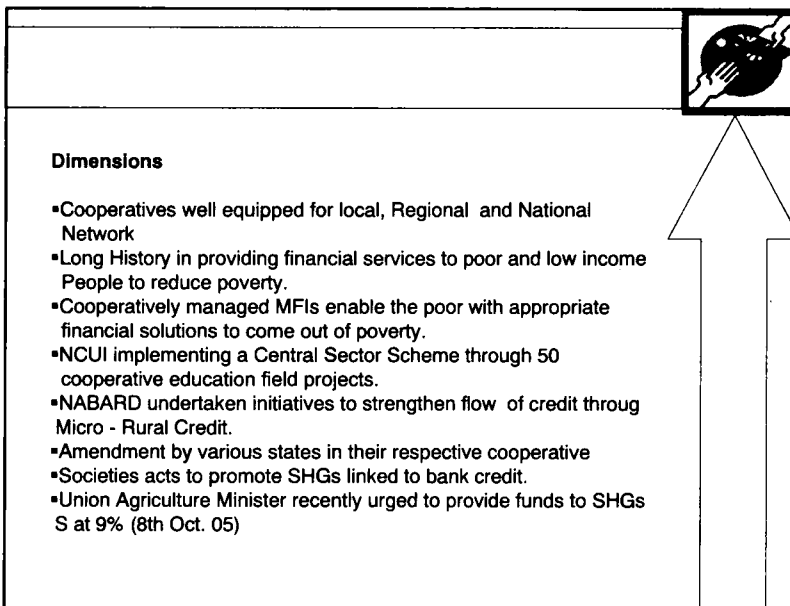
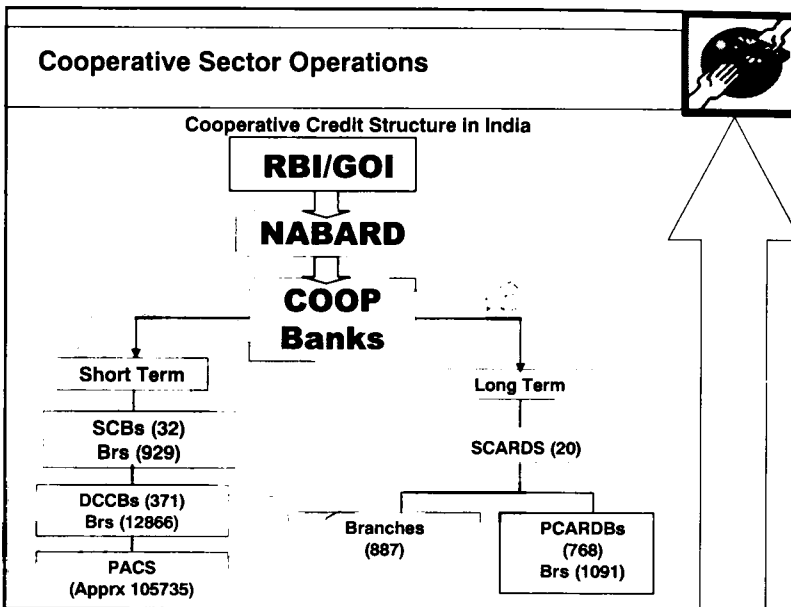
### Why Internalization Of Micro Finance?


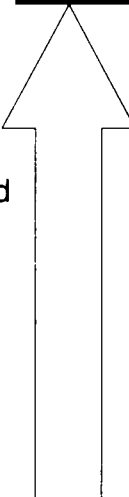
- ∞ **Eradication of World Wide Poverty**
- ∞ **Improving Quality Of Life of Poor**
- ∞ **Bringing Socio-Economic Development at Grass Root Level**
- ∞ **Achieve Strong Repayment**
- ∞ **Sustainable in Developing World**
- ∞ **High Replicability**
- ∞ **Serve Large Numbers**
- ∞ **Stimulate Savings**


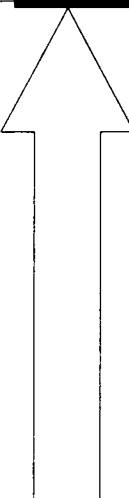
### Strategies to Internalize Micro Finance




- **World wide interactions to create importance of MF**
- **Awareness Among Cooperatives, PSU's, NGO's etc**
- **Capacity Building Of Various Institutions**
- **Learning From Success Stories Of MFI's**
- **Creating Supportive Environment For MF**





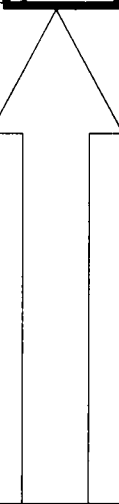
		
<p>Cooperative Sector -Changes Required</p>		

<p><b>Cooperative Sector - Changes Required</b></p>		
<p><b>✓ Legal Measures</b></p> <ul style="list-style-type: none"><li>• <b>Necessary Amendments in</b><ul style="list-style-type: none"><li>State Cooperative Societies Act</li><li>Multi State Cooperative Societies Act</li><li>Bye Laws of Coop Credit Institutions</li></ul></li><li>• <b>Providing Separate Entity For MFI'S</b></li><li>• <b>Setting Up Regulatory Body for MF within Cooperatives</b></li></ul>		



<b>Cooperative Sector -Changes Required</b>	
<p data-bbox="283 409 655 447">✓ <b>Structural Measures</b></p> <p data-bbox="321 533 850 571"><b>Establishing Structural Arrangements for</b></p> <ul data-bbox="321 599 497 733" style="list-style-type: none"> <li>• <b>Marketing</b></li> <li>• <b>Training</b></li> <li>• <b>Technology</b></li> <li>• <b>Networking</b></li> </ul>	

<b>Cooperative Sector -Changes Required</b>	
<p data-bbox="283 1132 686 1170">✓ <b>Operational Measures</b></p> <ul data-bbox="283 1218 831 1380" style="list-style-type: none"> <li>• <b>RBI/Nabard/Regulatory Body to Design Operations</b></li> <li>• <b>Separate Manual For Micro Finance Operations</b></li> <li>• <b>Areas of Productive investment</b></li> <li>• <b>Backward &amp; Forward Linkages</b></li> <li>• <b>Employment Generation : Full/Self</b></li> <li>• <b>Capitalizing Hidden Skills of</b></li> </ul> <p data-bbox="308 1408 434 1513"> <b>Artisans</b>  <b>Weavers</b>  <b>Mechanics</b>  <b>Artists etc.</b> </p>	

	
<p><b>Time For Questions</b></p>	

## Programme

- 13th Oct.** – Arrival of participants in Delhi  
 – Stay in Delhi - Evening
- 14th Oct.**  
 07.00 a.m. – Departure to Chandigarh by coach.  
 12.00 noon – Arrival in Chandigarh - check in Hotel  
 13.00 hrs. – Lunch  
 16.00 hrs. – Opening Ceremony (inauguration)
- 15th Oct.** – Business Sessions of Seminar and Closing.
- 16th Oct.**  
 17.00 hrs. – Departure to Timber Trail (Mountain)  
 18.00 hrs. – Arrival at Timber Trail  
 – Stay, dinner and cultural programme.
- 17th Oct.** – After breakfast : Departure to Amritsar for study visit on the way  
 – Stay in Amritsar
- 18th Oct.**  
 Morning – Departure to Delhi by coach  
 Evening – Departure to Home countries.

## List of Participants

### INDIA

1. Mr. B.S. Vishwanathan,  
Chairman, R.C.B.A.  
Chairman,  
National Centre for Agriculture  
and Rural Development Bank Ltd.,  
67, Padmanabhanagar, Banashankari II Stage,  
Bangalore-560070 (Karnataka).
2. Dr. B.S. Suran  
Deputy General Manager  
Micro Credit Innovations Dept.,  
NABARD, Mumbai, India.
3. Mr. P.V. Prabhu,  
Trustee Secretary  
National Institute for Rural Banking  
67, Padmanabhanagar, Banashankari II Stage,  
Bangalore-560070 (Karnataka).
4. Mr. Bhagwati Prasad  
Chief Executive  
National Co-operative Union of India  
New Delhi.
5. Mr. R. Bhakther Solomon  
Executive Director  
9, Railway Colony  
First Street Chooiamedu  
Aminkikarai Chennai-600 029, India.

6. Dr. Damodar Acharya  
The Concerned for Working Children (CWC)  
303/2, L.B., Shastri Nagar Vimanapura Post  
Bangalore-560 017, Karnataka, India.
7. Mr. D. Krishna,  
Chief Executive  
National Federation of Urban Coop. Banks  
and Credit Societies Ltd.  
New Delhi.
8. Mr. Babasaheb Wasade  
Hon. Chairman,  
The Chandrapur District Central Coop. Bank  
Ltd.,  
Chandrapur.
9. Mr. Ajit S. Rege  
Saraswat Coop. Bank.,  
Mumbai.
10. Mr. K.K. Ravindran  
Managing Director  
National Cooperative Agriculture & Rural  
Development Banks' Federation Ltd.,  
Mumbai, India.
11. Mr. Ashok Kumar  
Chairman  
Bidar District Central Co-op. Bank Ltd.,  
Bidar, India.
12. Ms. Ami Shelat  
Director  
Economic and Rural Development  
SEWA,  
Ahmedabad-380001.

13. Mr. C. Anuraj  
Team Leader,  
League for Education And Development  
(LEAD)  
Bangalore, India.

**NETHERLAND**

14. Mr. Onno Mulder  
ABN AMRO Bank N.V.  
GRM/Emerging Markets Analysis &  
Multilateral Organisations  
Gustav Mahlerlaan 10 / HQ 9061  
PO Box 283 1000 EA Amsterdam

**NEPAL**

15. Mr. Suman Khanal  
Chief Executive Officer  
Nepal Federation of Savings and  
Credit Cooperative Union,  
P.O. Box 9169 Suruchimarg  
Baneshwor, Kathmandu, Nepal

**PAKISTAN**

16. Mian Muhammad Zulqarnain Aamir  
Registrar Cooperatives Punjab/  
President, Punjab Provincial Cooperative  
Bank Ltd.,  
Cooperative Bank House, Bank Square,  
Lahore, Pakistan.
17. Raja Allah Bukhsh,  
General Manager,  
Punjab Provincial Cooperative Bank Ltd.,  
Cooperative Bank House, Bank Square,  
Lahore, Pakistan.

**PHILIPPINES**

18. Mr. Segfredo Buagas  
Chief Executive Officer  
Fairchild Multi-Purpose Cooperative,  
2nd St., 2nd Ave., MEPZ, Mactan,  
Lapu-Lapu City, Cebu, Philippines.

**SRI LANKA**

19. Mr. P.A. Kiriwandeniya  
Chairman  
Sanasa Development Bank Ltd.,  
No. 106, Dharmapala Mawatha,  
Colombo 07, Sri Lanka.
20. Mr. Willie Wijesingha Kodikara  
District Officer of Cooperative Development,  
Southern Province, C/o NCC of Sri Lanka.
21. Mr. Sirisena Samarasingha  
Accountant,  
Morawakkorale Cooperative Society Ltd.  
C/o NCC of Sri Lanka.
22. Mr. W.T.R. Prabath  
Branch Manager,  
Sanasa Development Bank Ltd.  
No. 106, Dharmapala Mawatha,  
Colombo 07, Sri Lanka.

**THAILAND**

23. Dr. Sawat Saengbangpla  
President,  
Federation of Savings and Credit  
Cooperatives of Thailand Ltd., (FSCT)  
701/29-33, Wongeswang Road, Bangsue  
Bangkok 10800, Thailand.

**APRACA**

24. Mr. Benedicto S. Bayaua  
Secretary-General  
Asia-Pacific Rural and Agricultural Credit  
Association (APRACA)  
39, Maliwan Mansion, Phra Atit Road,  
Bangkok-10200, Thailand.

**ACCU**

25. Mr. Ranjith Hettiarachchi  
Executive Director  
Association of Asian Confederation  
of Credit Unions (ACCU)  
36/2, Moo 3, Soi Malee Suanson  
Ramkhamhaeng Road, Bangkok  
P.O. Box 24-171,  
Bangkok 10240, Thailand.

**ICA ROAP**

26. Mr. Shil Kwan Lee  
Regional Director  
International Co-operative Alliance,  
Regional Office for Asia and the Pacific  
New Delhi-110066
27. Mr. B.D. Sharma  
Senior Consultant,  
International Co-operative Alliance,  
Regional Office for Asia and the Pacific  
New Delhi-110066
28. Mr. A.K. Taneja  
Program Officer  
International Co-operative Alliance,  
Regional Office for Asia and the Pacific  
New Delhi-110066
29. Mr. K. Kukreja  
Finance Officer  
International Co-operative Alliance,  
Regional Office for Asia and the Pacific  
New Delhi-110066



# PRINCIPLES OF COOPERATION

## DEFINITION

A Cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

## VALUES

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, Cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

## PRINCIPLES

The Principles of Cooperation are guidelines by which Cooperatives put their values into practice.

**First Principle: Voluntary and Open Membership:** Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

**Second Principle: Democratic Member Control:** Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women, serving as elected representatives, are accountable to the membership. In primary Cooperatives, members have equal voting rights [one member one vote], and Cooperatives at other levels are also organised in a democratic manner.

**Third Principle: Member Economic Participation:** Members contribute equitably to, and democratically control, the capital of their Cooperative. At least part of that capital is usually the common property of the Cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their Cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the Cooperative; and supporting other activities approved by the membership.

**Fourth Principle: Autonomy and Independence:** Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their Cooperative autonomy.

**Fifth Principle: Education, Training and Information:** Cooperative provide education and training for their members, elected representatives, managers, and employees, so that they can contribute effectively to the development of their Cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of Co-operation.

**Sixth Principle: Co-operation among Cooperatives:** Cooperatives serve their members most effectively and strengthen the Cooperative Movement by working together through local, national, regional and international structures.

**Seventh Principle: Concern for the Community:** Cooperatives work for the development of their communities through policies approved by  
ers.



ICA 00062

ISBN : 81-89550-04-7