

Mid Term Review Report

Of

Friends of World Women Banking (FWWB) USAID Project

On

STRENGTHENING INDIA'S MICROFINANCE INSTITUTIONS TO ENHANCE POOR WOMEN'S ACCESS TO APPROPRIATE FINANCIAL SERVICES

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Abbreviations

BP	Big Partner
BWDA	Bullockcart Workers Development Association
CB	Capacity Building
CEO	Chief Executive Officer
COVA	Confederation of Voluntary Associations
DFID	Department for International Development
FWWB	Friends of World Women Banking
GP	General Partner
HO	Head Office
ID	Institutional Development
IDP	Institutional Development Partner
MACS	Mutually Aided Cooperative Society
MACTS	Mutually Aided Cooperative Thrift Society
MF	Micro Finance
MFI	Micro Finance Institution
MIS	Management Information System
NABARD	National Bank for Agriculture and Rural Development
NGO	Non Government Organization
PAR	Portfolio at risk
PO	Partner Organizations
RBI	Reserve Bank of India
RMK	Rashtriya Mahila Kosh
RO	Regional Office
SFMC	SIBDI Foundation for Micro Finance
SHG	Self-Help Group
SIDBI	Small Industries Development Bank of India
SWA	Sharada Women's Association
TA	Technical Assistance
TAV	Technical Assistance Visit
WWB	World Women Banking

1.0 Introduction

The Friends of Women's World Banking India (FWWB) is a non-profit organization registered in 1982 as a Trust under the Bombay Public Charitable Trust Act, 1950 and under the Society Registration Act, 1860. It is affiliated to the Women's World Banking, New York in 1982. Based in Ahmedabad in Gujarat State, India, the Trust was founded "to assist in the formation and strengthening of women's organizations by bringing them into the mainstream of the economy and thereby making them participants in the process of nation building". In keeping with its mission, the objectives broadly seek to address the capacity building as well as the credit needs of NGO/ microfinance organizations besides policy matters.

From 1982 to 1989 it operated as a single-state organization that issued loan guarantees on behalf of NGOs and savings/credit groups. In 1989, FWWB/India's bye-laws were modified to enable it to become a national private apex institution that wholesales funds to retail-level MFIs in India¹. It currently operates in 10 states out of a total of 29 states and 6 Union Territories in India. Its corpus fund has increased from Rs. 70 million in 1984 to Rs. 118 million in 2004. As of March 2004 FWWB has received grant funds from 10 agencies including USAID and loan funds from 7 institutions including commercial and development banks.

USAID India is investing in five focus areas in India: economic growth, health, disaster preparedness and response, energy and water, increased equity and social justice for vulnerable people. Under economic growth, among the constraints identified in the Financial Sector, the Agency notes that *'access to timely and efficient financial services (credit, savings, as well as insurance and pensions) is critical for India's 60 million poor households if they are to take advantage of the economic opportunity created by reforms. Creation of an enabling policy and regulatory environment that promotes the growth of sustainable micro finance institutions is key to achieving broad-based economic growth and development in India.'* Poor households not currently part of the mainstream financial services market and poor communities in urban and rural areas are among the target groups for the program area. Improvements in policies governing microfinance will help to increase economic opportunities for vulnerable groups and low income women.

USAID India has a long term vision in consonance with international targets for poverty reduction. In line with its strategy for economic growth USAID/India has entered into a five-year agreement (2001 to 2006) with the Friends of Women's World Banking (FWWB) of India for "Strengthening India's Micro Finance Institutions to Enhance Poor Women's Access to Appropriate Financial Services". Under the agreement USAID India supports the program with a grant fund of Rs. 61.1million with cost sharing by FWWB of Rs. 13.19 million. The primary objective of the program is to "help develop a critical mass of financially sustainable micro finance institutions (MFIs) that offer basic financial services (credit, savings and insurance) to a significantly large number of poor women thereby contributing to their social and economic empowerment.

The objective will be achieved through results in two mutually reinforcing areas: 1) strengthening institutional capacity of FWWB India and its partner organizations; and 2)

¹ www.swwb.org

improvement of the enabling policy, regulatory and institutional environment. The four activity areas under the program are:

- Institutional strengthening of FWWB's partner MFIs
- Institutional strengthening of FWWB India
- Promoting microfinance friendly policy initiatives and standards
- Promoting innovation in microfinance

The program envisages a mid-term evaluation of the project and a final impact assessment at the end of the project, to be carried out by external consultants. At the instance of FWWB a mid-term review of the project was carried out in January 2005 by a team of three consultants. The objective of the review is to give suggestions for the future direction of the project within its operating context. The areas of focus are the respective activity areas in the project. The Terms of Reference for the review are given in Annexure 1. This is a mid term review report.

2.0 Review Methodology

Prior to the commencement of the review, the FWWB team, the USAID advisor and the review team met for a discussion session in which the Terms of Reference and the review program details were concluded. The review schedule is given in Annexure 2. The review process consisted of:

- Discussions with FWWB staff in Regional Office, Chennai
- Field visits in Vizhupuram and Tiruchirapally (Tamil Nadu)
- Interaction with other partners in Tiruchirapalli (Tamil Nadu)
- Field visits in Andhra Pradesh
- Innovation project of a non partner organization
- Meeting with UTI Bank, Hyderabad
- Interaction with partners and beneficiaries in Ahmedabad, Gujarat
- Discussions with management and staff of FWWB at Head Office, Ahmedabad
- Meeting with commercial bankers and SIDBI, who have loaned funds to FWWB
- Interaction with the Human Resources consultant of FWWB
- Discussions with available Board members of FWWB
- Meeting with the former chairperson, Ms. Ela Batt
- Meeting with USAID and Ford Foundation at New Delhi
- Study of documents made available by FWWB and its partner organizations
- Internal discussions of review team

A total of 10 partner organizations (POs) were visited and interaction was had with another five. In Andhra Pradesh the team was split into two in order to cover more ground in the time available. Branch offices and activity centres of the partner organizations were visited selectively. Care was taken to select partners of varying performance levels and at different stages of growth. Of the partners visited, three had also undertaken innovation projects. The consultants were accompanied by the program staff in the field visits. Annexure 3 gives the list of POs visited / interacted with, and persons met.

3.0 FWWB Phases of Growth

Available information² points to three significant phases in the growth of FWWB. Each phase is roughly of five years ranging from 1989-1994; 1994-1999; and 1999-2004.

Phase 1: 1989-94

In the First Phase, between 1989 and 1994, FWWB's activities aimed at promoting and strengthening the emerging microfinance movement in India through two programmes: i) a capacity building programme to train NGOs and groups in the formation and management of savings and credit programmes; ii) a Revolving Loan Fund programme to meet their credit needs of the groups it had trained. In 1989 FWWB disbursed three loans totalling Rs. 0.154 million. In 1990 FWWB received its first loan from the Industrial Development of India (IDBI) - a five-year loan of Rs. 1.5 million at 4% per annum. In 1994 the National Bank for Agriculture and Rural Development (NABARD) gave a seven-year loan of Rs. 1.0 million at 6.5% per annum.

By 1994 the loan portfolio had 48 loans totalling Rs. 9.82 million reaching 36,394 women in seven states. After an intensive study of existing credit delivery models, FWWB started training NGOs in setting up and strengthening microfinance programmes and this marked the origin of the Training and Capacity Building Programme of FWWB. FWWB's role in capacity building in the early years was two-fold: i) to create awareness of the importance of local level member managed MFIs, and ii) to guide development NGOs in starting MF programs. Training and counselling activities during this period focussed on helping organisations to start savings and credit groups. IDBI and later NABARD provided the initial financial support for training activities. By 1994 the training programs reached out to 171 organisations through training and to 20 organisations through counselling (intensive inputs for MF program start ups). The staff strength in this period was four.

Phase 2: 1994-99

Between 1995 and 1999 many NGOs started forming SHGs and expanding their microfinance activity. This led to a rapid growth in FWWB's lending programme. The number of loans disbursed increased more than four-fold from 13 in 1994 to 61 in 1999. Credit disbursed increased five-fold from 4.49 million in 1994 to 22.3 million in 1999. As of March 1999 FWWB's cumulative loan portfolio was in excess of Rs. 80 million with a total outreach of 57,000 women. FWWB had also built its own corpus of Rs.10 million. In mid 1998 FWWB revised upward its lending rate owing to **increase in cost of funds**.

With expansion in financial activity of NGOs that had limited understanding of the subject, the capacity building inputs that were required were accordingly different. FWWB tried to address these needs by increasing the type and number of trainings. Two broad categories of training programs were offered: i) training of group leaders, field organisers and NGO staff on self-help group formation and functioning and ii) training of NGO staff and chief functionaries on credit management, financial management, strategic planning and identifying viable income generation activities. In the year 1998-99, 34 training programs were conducted for 729 participants. Most of the training programs were given

² Annual Reports of FWWB, India

to organisations that were also FWWB's credit clients with the expectation that the two types of inputs will support each other and make for stronger MF programs among clients.

While this period saw an increase in the number and type of training programs, FWWB's counselling role and one-to-one inputs to partner organisations decreased. By 1999 FWWB was receiving fund support from NABARD, the Small Industries Development Bank of India (SIDBI), Programme for Appropriate Technology in Health (PATH), Ford Foundation, USAID, Holdeen-India Fund, the Swiss Agency for Development and Cooperation (SDC) and Citibank. The Board composition was altered to induct persons with financial background, as the earlier Board had only development practitioners. Staff strength was expanded and middle and senior level staff were recruited. FWWB's activities in the loan and capacity building programmes as also its association with the Women's World Banking brought it national and international visibility and the organization started playing a role in policy advocacy in microfinance.

Phase 3: 2000-04

The third phase, which is somewhat co-terminus with the **project period**, has seen rapid advance in credit disbursal and outreach. Credit disbursal increased from Rs. 80 million as of March 2001 to 473 million as of March 2004 (six-fold increase) with number of loans going up from 61 to 267 in the same period (four-fold increase). Outreach grew to a total figure of 264,286 women as of March 2004. The number of partners did not show a dramatic rise and was 88 as of March 2004 in comparison with 82 as of March 1999 mainly because of exit of certain older partners.

The 88 partners comprise 6 Big, 16 Institutional Development and 66 General partners accounting for 43%, 37% and 20% of the outstanding portfolio respectively. While the PAR improved from a level of 14% in March 1999 to 3.9% in 2001, it has gone up to a level of 4.96% in 2004. Rapid scaling up of programs by partners without having in place the requisite safeguards is reflected in a rise in PAR and is a concern engaging the attention of the management. Table1 gives select indicators that illustrate the growth of the organization over the three phases.

Table 1: Growth of FWWB³

Parameters	1989	1994	1999	2001	2004
No. of states	-	7	9	-	10
No. of partners	-	-	82	80	88
No. of loans disbursed	3	13	61	101	267
Loan disbursed (in Rs. mn)	0.15	4.49	22.31	80.0	473.4
Loan outstanding (in Rs. mn)	-	-	37.5	96.9	486.1
Outreach to women (no. of mem.)	-	-	18,706	32,119	139,366
Portfolio at Risk (PAR)	-	-	14%	3.9%	4.96%

Currently FWWB's activities are being carried out under three program areas: loan fund program; institutional development program and policy advocacy. In 2003-04 the organisation conducted a total of 36 training programmes for 383 participants spanning 14 training areas related to SHGs and federations, accounting, software, credit, finance,

³ Figures for hyphenated cells are not readily available

product development and business planning. Besides, 8 workshops and 6 exposure visits organised during the year benefited 208 and 109 participants respectively. In addition, Technical Assistance Visits (TAVs) were undertaken, largely for a select category of institutional development partners (IDP), as part of FWWB's long-term strategy of institution building. Holistic assessment of operations, streamlining of field operations and /or restructuring of major office functions are the areas covered in TAVs. In terms of loan outstanding Andhra Pradesh and Tamil Nadu account for about 73% of the business. FWWB is making conscious efforts to disperse to other poorly reached states.

FWWB has been subjected to periodic reviews by C-GAP and the WWB, and its lending program has been rated by M-Cril and Crisil. Salient observations made in the reviews are given in Box 1.

Box 1: Salient Observations by External Reviewers

Salient observations made in the reviews, carried out between 2001 and 2004, are listed hereunder.

- ◆ FWWB's five-year strategic plan⁴ focuses on strengthening the microfinance sector by supporting institutions in developing systems that will enable scaling up of their activity while maintaining portfolio quality.
- ◆ FWWB will continue to offer lending and capacity building services to clients. Small MFIs that do not have access to bank credit will continue to be its niche market.⁵
- ◆ The developmental policy of FWWB strives to bring new and promising organizations into the sector by providing requisite capacity building inputs.⁶
- ◆ Increased efforts on capacity building should not be at the expense of its lending operations if it wants to access more external funds.⁷
- ◆ An increasingly competitive environment for lending e.g. with regard to loan amounts, interest rates and types of products raises strategic questions for the organization; illustratively, raising of funds, scope of capacity building services, segregation of capacity building costs, sharing by clients of capacity building costs, criteria for segmenting POs.⁸
- ◆ High interest rate is a major drawback. As interest rates decline big partners demand low rates.
- ◆ Funding and technical assistance provided by FWWB to MFIs enable the latter to graduate to sustainability. Successful partners are linked to donors and commercial banks. FWWB clients are considered credit worthy by commercial banks and other lenders.
- ◆ FWWB expends considerable resources in developing and building promising partners.
- ◆ Other apex institutions and banks have loaned funds to the big and IDPs.
- ◆ POs greatly appreciate FWWB's appraisal and monitoring as it helps them identify weaknesses and urges them to improve.
- ◆ FWWB is very selective in choosing POs.
- ◆ High dropout rate in GPs reflect inadequacies in the selection procedure for partners.
- ◆ Staff, systems, asset quality, monitoring and management have received good ratings from review and rating agencies.
- ◆ The organization has in place an external audit for itself and an internal audit system for itself and for its clients.
- ◆ An efficient and well managed organization, FWWB has several strengths that it can leverage for mobilising funds.
- ◆ As partner MFIs grow their capacity building needs are of a higher order.
- ◆ Staff turnover is an issue and this has also been expressed by POs.

⁴ Report of 2002

⁵ Report of 2002

⁶ Report of 2003

⁷ Report of 2001

⁸ Report of 2004

Which Report

- ♦ Second line staff need to be developed to be able to move into the top rung.

4.0 Comprehending Partnerships

FWWB is a wholesaler organization. Its development approach focuses on building capacity of promising and committed microfinance institutions to play a leading role in providing financial services to poor women. The financial services to women are thus routed through other organizations, called partners. FWFB categorizes the Partner Organizations (PO) as General Partners (GP), Institutional Development Partners (IDP) and Big Partners (BP), the basis of which is given in Box 2.

Box 2: Categorization of Partners

Following criterion used for categorizing partners of different types.

General Partner (GP): General partners are new entrants to micro finance. Their outreach ranges from 500-1500 members and have the potential to graduate into the IDP category in subsequent years. There are seventy partners in this category.

Institutional Development partners (IDP): MFIs having an outreach of over 5000 members with potential to reach more. They have a clear vision & business plan, committed leadership & clear growth strategy. There are 18 IDPs at present.

Big Partners (BPs): MFIs having client base of about or more than 10,000 women and a loan portfolio size of over Rs 5 crores. They have a clear growth strategy and well developed operating systems. Currently, there are five BPs.

4.1. General Partners

Most new partners join as General Partners unless they qualify for higher category. As would be expected, there are maximum partners in this category and includes those registered under Mutually Aided Cooperative Society (MACS) Act. There were 33 GPs in December 2004. However, FWFB has worked with over 100 GPs during the project period. State wise summary of non-MACS GPs is given in Table 2 (also see Annexure 4).

An analysis of GP data excluding that of cooperative thrift societies (which are analysed separately as a sub-category) over the project period gives significant insights. Following are some of the salient findings.

- FWFB has worked most extensively in Tamil Nadu and has formed general partnerships with 27 organizations. Of these eight GPs have moved to the next category of IDP and 10 GPs have dissociated over the same period.
- The next State with maximum number of partnerships is Gujarat where it has worked with 17 GPs but none have been able to graduate to the next level of maturity even while 11 GPs have dropped out.
- In AP, which is otherwise a very successful State from micro finance perspective, accounting for nearly half FWFB portfolio and coverage, FWFB had partnered with nine GPs of which only two have moved up the category and rest seven have dissociated. There are no GP partners in the State since last two years.
- Similarly, in Kerala FWFB worked very intensively and worked with 7 GPs of which only one remains now.

- There are no GP drop outs in Orrisa and West Bengal as yet since FWWB has started working in these States from the current year.

In general, FWWB disassociates with non responsive General Partners fairly early. The data analysed since March 2001 indicates that

- Only three GPs out of 37 in March 2001 and five out of 42 GPs in March 2002 remain associated with FWWB
- Half or 50% of GP partners drop out and their average years of association with FWWB are just 1.6 years.
- 35% GPs that are still with FWWB have average association of about 2.5 years.
- Only 15% of the GP partners graduated into next higher level of partnership. Eight out of 12 such cases are in Tamil Nadu.

It can be concluded that FWWB has cast its net wide and taken a lot of risk in entering into partnerships with non proven NGO/MFIs and extended them funds for on-lending. It has been equally decisive in dissociating with a partner if the relationship is not productive as can be concluded from just 1.6 years of average association with GPs that dissociate. Conversely, it can also be said that FWWB has not been very discreet in entering into partnership. Its screening process is not rigorous enough and needs tightening. Over the years FWWB rate of success in building stable partnerships should increase. There is some evidence that this is happening as the average number of years of association of GP currently linked is slightly higher at 2.5 years.

In order to minimise the losses, it is suggested not to invest heavily in GPs in time and effort to build them up as stable and growing financial institutions. GPs should be provided standard generalised inputs and exposure visits. The latter would help them develop vision and perspective. FWWB has indeed been following this principle and except in Gujarat has not spent too much time giving inputs to GPs.

Table 2: Data on General Partners (excluding MACS)

Sl. No.	State	Total GPs	Nos of current GPs	GPs dissociated	Partners moving category
1	Andhra Pradesh	9	0	7	2
2	Gujarat	17	6	11	-
3	Karnataka	4	0	2	2
4	Kerala	7	1	6	-
5	Maharashtra	4	3	1	-
6	Madhya Pradesh	2	0	2	-
7	Orrisa	3	3	0	-
8	Rajasthan	3	2	1	-
9	Tamil Nadu	27	9	10	8
10	West Bengal	4	4	0	-
	Total	80	28	40	12
	Percentage		35%	50%	15%
Average yrs of partnership with GPs (overall)					1.89
Average years of partnership with dropped GPs					1.63
Av. Years of partnership with GPs that have moved to next category					1.33

Average years of partnership with current GPs	2.50
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4.2. M ACS as financial Intermediaries

Promulgation of Mutually Aided Cooperative Societies Act (MACS) in Andhra Pradesh in 1995 has paved way for creation of people's cooperatives without undue interference of the State. The Act covers all kinds of producer cooperatives including those formed for addressing financial needs. More and more State governments are following the lead taken by AP and are promulgating their version of the Act, often improving upon the original. Up till now six States viz. AP, Orrisa, Rajasthan, MP, Bihar and Jharkhand have implemented the Act.

The Act paves way for creation of financial intermediaries controlled and managed by the community members. Community managed financial intermediary is a dream of development workers. Many NGOs engaged in development and those that were promoting women self-help groups (SHGs) are forming federations of SHGs and registering them under the MACS Act to become a financial intermediary.

FWWB, at the behest of the promoting NGOs and from its own development perspective, has engaged with federations that are registered under the MACS Act and has provided on-lending funds for members. The experience of these community credit institutions, while desirable from many dimensions, has not been very encouraging.

FWWB has engaged with as many as 12 different Mutually Aided Cooperative Thrift Societies (MACTS) partners since year 2001. It had as many as nine MACTS partners in the general category (GP) in 2002. None of these partners developed into IDPs. Number of MACTS partners has gradually come down to four in 2004-05 with only one remaining from the original nine. The median duration of engagement of MACTS is three years, with many engaged only for two years. New ones become partners even as the old ones disengage. Only MV-Cuddapah has remained a partner since 2001. See Table 3 below.

Table 3: Data on FWWB partnership with MACS

Sl. No.	Name of the MACS partner	2001 March	2002 March	2003 March	2004 March	2004 December
1	MV – Cuddapah	Yes	Yes	Yes	Yes	Yes
2	MV – Chaitanya	Yes	Yes	Yes	-	-
3	MV-Rajampet	Yes	Yes	Yes	-	-
4	Sneha MACTS	Yes	Yes	Yes	-	-
5	Vedanta MACS	Yes	Yes	Yes	-	-
6	Mahila Vikas MACTS	Yes	Yes	Yes	-	-
7	MV – Kurnool	Yes	Yes	-	-	-
8	Triveni MACTS	Yes	Yes	-	-	-
9	Amruta MACTS	-	Yes	Yes	-	-
10	SWD MACS	-	-	Yes	Yes	Yes
11	VB MACTS	-	-	-	Yes	Yes
12	Sadhana MACTS	-	-	-	Yes	Yes
	Total	8	9	8	4	4

Based on the field observations and interactions with members and staffs of MACTS, promoting organizations and FWWB, it can be inferred that

- Most MACTS, though registered separately, continue to remain in the fold of the promoting organization/NGO. NGO staff invariably becomes Chief Executive Office (CEO) of the MACTS. S/He is generally governed by the rules and regulation of the promoting organization.
- MACTS have often been limited by design constrain imposed by the promoting organization. They have little independent space to expand and reach large numbers. Thus, even if MACTS are fully focussed on “credit”, its potential to expand and cater to large number of people remains unutilized.
- Women members constitute the Governing Board of the MACTS and even if literate their level of awareness and ability to manage finances remain poor. Thus promoting organization having a commanding control over the operations through the CEOs. The MACTS continue to be a shadow of the promoting organization.
- If the promoting NGO is involved in multiple activities then MACTS focus too remains similarly defused. NGOs often engage the cooperative leaders for routing their other development programs to the community.
- If the promoting organization does not have adequate capacity in micro credit the capacity of MACTS remains similarly limited.

Till now there has been no separate focus on the MACTS. Only one training has been conducted till now for leaders of community institutions. Even this has by-passed the MACTS as it was conducted in Chennai for MFIs in Tamil Nadu in Tamil. All the MACTS are in Andhra Pradesh and Telugu should be the medium. For building capacity of MACTS as financial intermediaries, it is important to develop the capacities of promoting organization and MACTS in tandem.

Promotion of MACTS as financial intermediaries should receive due attention and be treated as a separate category with separate capacity building plans. The trajectory of the growth path of MACTS so that they become independent of the promoting organizations and become financial intermediaries in their own right is an important area for study and action research. FWWB should be able to suggest a model for developing MACTS as full fledged financial intermediaries in, say, 3 to 5 years.

Following are some of the suggestions to strategize working with MACTS.

- FWWB should form synergistic alliances with support organizations and resource persons in AP that are working on MACTS issues. It could work with them to develop CB inputs tailored for MACTS.
- Rating tools specific to MACTS need to be used to rate federations/MACTS before financing them.
- Besides inputs on financial aspects, MACTS promoting organizations and their staff would need to be given inputs in ‘organization development’ so that they develop MACTS as separate institutional entities.
- On the advocacy plank, FWWB should advocate promulgation of the MACS Act in other States, especially in Tamil Nadu, where there are a number of MFIs that are following the SHG model of micro-finance and would stand to benefit from this enabling policy.

- FWFB should study the MACS Act in different States and consolidate the beneficial features of the various Acts and lobby for relevant changes.
- The model of federations developed by Dhan Foundation (Madurai) should be critically examined to learn about the generic and replicable aspects of the model that could be transferred to MACTS. Federations promoted by Dhan Foundation are registered as Societies/Trusts and not as cooperatives.

Box 3: Case of VB MACTS

The Vanita Bharathi MACTS is one of the ten MACTS promoted by Viveka Service Society (VSS). VBMACTS was registered in 1999 and functions in 5 mandals of Guntur district. There is an upper ceiling on the membership of the MACTS, on the basic premise that these organisations are community based and would function efficiently and effectively, if operations were restricted to the local area. It received initial funding from VSS and Thrift Cooperatives Association in Vijayawada. It has received loans for on-lending to members from Rashtriya Mahila Kosh (RMK) and FWFB (May 2003). MACTS has 9 staff including a credit manager and CEO.

Staff from VB MACTS have attended two training programmes – Strategic Business Planning (March 04) and on Micro enterprise development (July 04).

The CEO of VB MACTS went on exposure visit to Sadhana Micro Fin. and international exposure visit to Shri Lanka. VB MACTS has received TA during visits by FWFB staff for strengthening MIS and report systems.

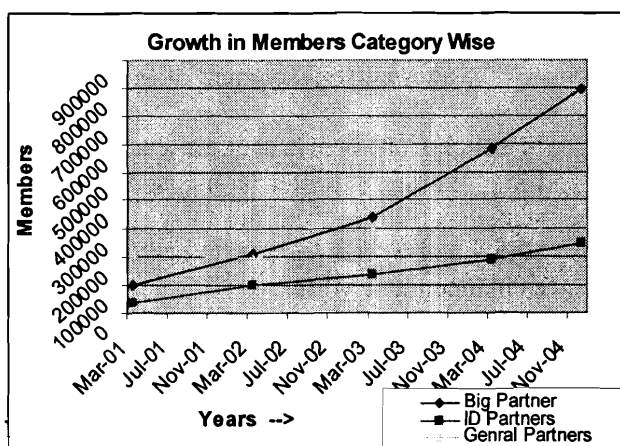
Credit program details	2003-2004	2004-2005 (till Oct 04)
Total membership	1540	3325
Total borrowers	793	1697
% borrowers to members	51.5%	51%
Loans outstanding	Rs 90 lakhs	Rs1.14 Crores
FWFB loan disbursed	Rs 20 lakhs	Rs 30 lakhs
FWFB loans outstanding	Rs1,400,000	Rs 4,023,809
Repayment rate	98% (Feb 02)	94.5% (Mar 03)
Operational self sufficiency	91% (Feb 02)	99% (Mar 03)

4.3. Big and ID Partners

Big Partners and Institutional Development Partners constitute the most important group of partners from the perspective of achieving larger coverage of women members and achieving financial sustainability of credit operations of FWFB.

Figure 1

Big Partners have raced away in their coverage over the project period. In March 2001 the number of members covered by BP was just 28.8 percent against 61.2 percent by GP. By December 2004, BP though much less in numbers, covered 56.4 percent women members against 25.8 percent by GPs. The coverage by IDP similarly increased in percentage terms and was 10 percent



and 17.8 percent in March 2001 and December 2004, respectively. The rate of growth is clearly visible in Figure 1, alongside. Also see Table 4.

Table 4: Partner coverage of members

Year		Big Partners	ID Partners	General Partners	Total
Mar-01	Nos	101,522	35,247	215,440	352,209
	%	28.82%	10.01%	61.17%	100.00%
Mar-02	Nos	210,919	102,454	194,110	507,483
	%	41.56%	20.19%	38.25%	100.00%
Mar-03	Nos	336,606	139,858	297,969	774,433
	%	43.46%	18.06%	38.48%	100.00%
Mar-04	Nos	584,928	191,422	225,153	1,001,503
	%	58.41%	19.11%	22.48%	100.00%
Dec-04	Nos	792,577	250,203	363,105	1,405,885
	%	56.38%	17.80%	25.83%	100.00%

An analysis of the data of FWWB partners on their focus/foci and character of promoter of the MFI reveals interesting insights. In Table 5 below, the change in category (reflecting growth) of currently Big and ID partner is mapped over the project period.

It is observed from Table 5 that:

- All the Big Partners in 2004-05 are exclusively focussed on “credit”. They do not have a multi-programme approach to address the poverty or social needs, of the people. The only exception was Bharat Sewak Samaj but it could not sustain its micro finance activities with multi programmes beyond a point.
- Second aspect of Big Partners is that most are promoted and led by persons who themselves have prior experience or background in micro finance. They had good technical understanding of micro-credit from the very beginning and did not have to learn from experience by trial & error at each stage of their growth. Even if they started small in the GP category they moved across the categories quickly to emerge as Big Partners. The two stark examples are that of Spandana and SKS.
- Another three (of which two were visited) in the making of Big Partners are Saadhana Microfin Ltd., Sharada Women Association (SWA) and Bandhan are similarly focused on credit only. They are led by people who have access and knowledge of MF from the beginning.
- MFIs engaged in multiple activities that have graduated from GP to ID category are stuck and are beginning to slip. ID partners, PSA in TN and BIRD in AP that were visited in the course of the review show clear signs of severe problems in operations, stemming from the fact that problems are not attended in time due to alternate engagement of MFI leader.

In conclusion, NGOs that are exclusively focussed on credit would make better partners for providing sustainable financial services to poor women. FWWB should accordingly select such MFIs from the early stages as GPs. Moreover, FWWB should support through equity and working grants to persons in existing large MFIs if they are want to venture out as independent MFIs.

Table 5: Change in category of partnerships of BP & IDP

Sl. No.	MFI/Partner	Focus	Promoter	Category				
				Mar 01	Mar 02	Mar 03	Mar 04	Dec 04
1	Share Mirofin Ltd.	Credit	Credit	BP	BP	BP	BP	BP
2	Bharat Sewak Semaj	Multi	Social	BP	BP	BP		----
3	Gram Vidiyal	Credit	Social	BP	BP	BP	BP	BP
4	Cashpor (CFTS)	Credit	Credit	BP	BP	BP	BP	BP
5	Asmitha Micro Fin	Credit	Credit			BP	BP	BP
6	SPANDANA	Credit	Credit	IDP	IDP	BP	BP	BP
7	SKS	Credit	Credit	---	GP	IDP	BP	BP
8	ACTS	Multi	Social	IDP	IDP	IDP	IDP	IDP
9	BIRDS	Multi	Social	IDP	IDP	IDP	IDP	IDP
10	CReSA	Multi	Social	---	GP	IDP	IDP	IDP
11	GUIDE	Multi	Social	---	GP	IDP	IDP	IDP
12	Saadhana Micro Fin	Credit	Credit	---	---	GP	IDP	IDP
13	Sharada	Credit	Social	---	IDP	IDP	IDP	IDP
14	Star Youth	Multi	Social	IDP	IDP	IDP	IDP	IDP
15	Bharat Sw. Samasthe	Credit	Social	---	GP	GP	IDP	IDP
16	Grameen Koota	Credit	Social	---	GP	GP	IDP	IDP
17	ESAF	Multi	Social	---	IDP	IDP	IDP	IDP
18	ARCOD	Multi	Social	GP	ID	IDP	IDP	IDP
19	CDC	Multi	Social	GP	GP	IDP	IDP	IDP
20	Mahasemam	Multi	Social	---	IDP	IDP	IDP	IDP
21	New Life	Multi	Social	GP	IDP	IDP	IDP	IDP
22	PSA	Multi	Social	GP	IDP	IDP	IDP	IDP
23	Shepherd	Multi	Social	GP	IDP	IDP	IDP	IDP
24	SHWET	Multi	Social	GP	GP	IDP	IDP	IDP
25	Bandhan	Credit	Credit				IDP	IDP

5.0 Institutional Strengthening of Partners

The key strategy and activity for achieving project objectives is institutional strengthening of FWFB's Partners Organizations (PO). Strengthening of partners would help expand the reach of financial services to poor women. Most of the capacity building (CB) inputs

are targeted at IDP and GP. However, the nature of inputs varies across the category. The inputs to ID partners (including those having high potential among the GP partners) are more intensive and higher level than to GP partners, which are obviously general and more basic.

5.1. Effectiveness of Capacity Building

At present institutional development of partners is sought to be achieved by providing training inputs, technical assistance, and through exposure to national and international organizations that have demonstrated best practices.

Training programs

FWWB Head Office has developed in house expertise in providing basic training inputs. It has a small team of trainers who conduct trainings on group formation, training of trainers, accounts at SHG and MFI level, etc. Training programs in Tamil and Telgu language have been conducted for GP and lower level IDP staffs in Southern States, with the help of partner organizations.

Higher level courses targeted at IDPs are mostly outsourced to professional organizations having such expertise. The programs conducted in this category are the following:

- Operational Risk Management (EDA Rural systems)
- Accounting for MFIs (EDA Rural Systems)
- Financial Analysis for MFIs (EDA Rural Systems)
- Product Development and Interest Rate setting (EDA Rural Systems)
- Performance Standards for MFIs organized with Sa-dhan
- Orientation workshop for external auditors (V. Nagrajan and Co. CA)
- Strategic Business Planning (Micro-finance Consulting Group)

While most of the technical training programs in MF were conducted in the second year of the project, there has been a shift in the nature of the training programs in the third year with greater emphasis on “Credit Plus” activities. Following Credit Plus training programs were conducted.

- Orientation to gender perspectives
- Micro enterprise development
- Strengthening governance- training programme for SHG women on MFI boards.

Exposure visits

Exposure to best practicing organizations serves to inspire and provide perspective and vision to the partners. They are also able to see specific aspects of areas that seem to be troubling them. Number of partners were sponsored to exposure visits both in-country and abroad. In country visits made were to

- ASA- Grama Vidiyal, Trichy, TN
- Sadhana Microfin Society, AP
- Spandana, Guntur, AP

The international exposure visits were organized to

- ASA and BRAC – Bangladesh

- SEEDS and Janashakti – Sri Lanka

Technical Assistance (TA)

Specific technical assistance is provided to IDPs and to GPs that have the potential to upgrade to the IDP category. It involves interaction with the MFI to evolve a terms of reference, on-site assessment of inputs required during monitoring visits, technical assistance visits to provide on-site inputs, followed by review and periodic assessment and feedback. It is quite an intensive process and is a need-based service. The effectiveness of the TA visits varies and is primarily dependent on the size and maturity of the organization and time frame for implementation.

The overall impact of the inputs provided is gauged more objectively through case analysis of some MFIs. Cases of Bullockcart Workers Development Association (GP) and Sharada Women's Association (IDP) are analyzed in Box 3 & 4 to explore direct linkage of capacity building inputs and organizational performances.

An analysis of BWDA data, also captured in line-graph, indicates the following.

- There is a positive correlation between the capacity building inputs provided to BWDA and general improvement in the financial performance. Change in the gradient of line-graph from the second year, when most of the technical inputs were given, indicates impact of CB inputs given in the form of trainings programs and exposure visits.
- The rate of formation of groups or adding members to the fold has remained unaltered over the project period, however, conversion of members into borrowers has increased from 18.5% on March 2003 to 27% as on September 2004.
- The loan portfolio has increased significantly from Rs 19.6 million at the end March 2003, to Rs 23.4 million by the second year (March 2004) to Rs 52.9 million six months later (Sept. 2004). Change in upward curve is clearly visible from the second year of the project, when most of the technical inputs were given.
- While the repayment rate has been affected due to rapid expansion, operational self sufficiency has increased substantially – 113% between second year of capacity building and September 2004.

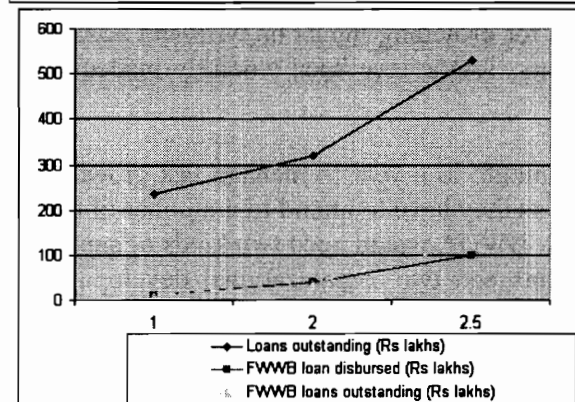
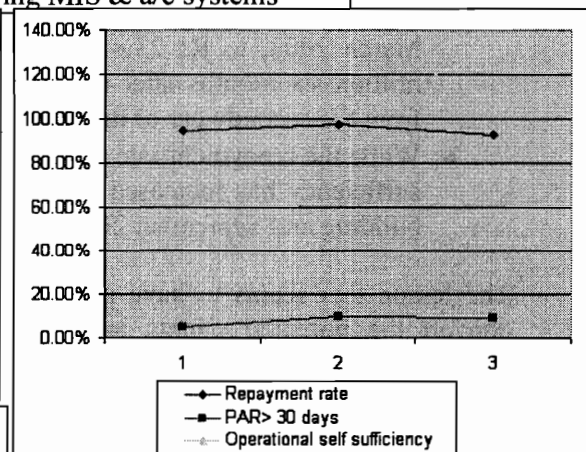
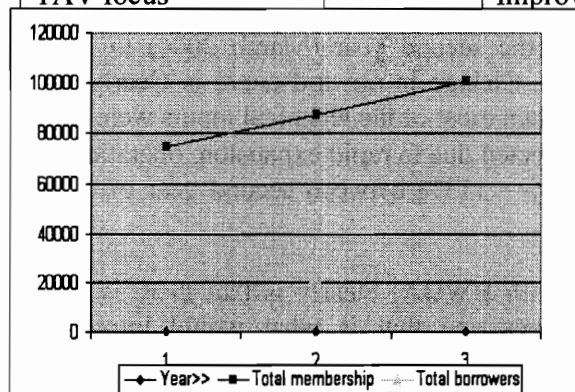
The lesson that seems to have got home (with BWDA) clearly is that there is need to convert the potential clients into actual ones and that is what would improve the organization's profitability and MF program stability. However, the systems and processes have not been able to keep pace leading to expansion without adequate safe guards. The data shows and FWFB recognizes the need for providing inputs on MIS and accounting systems. This has been the focus of TA visits. TAVs have been woefully inadequate to prevent the decline in portfolio quality.

BWDA requires continuous support for six month to a year to manage fast growth. It is not possible for FWFB personnel to do this as they have to attend to a number of clients. FWFB should outsource support for BWDA. BWDA would need two kinds of supports – one, technical for MIS, systems and accounts and two, organizational development to manage the expansion and transition to new organizational form. Positive effect of outsourced technical support is clearly visible in the case of Sharada Women's Association, which is discussed next.

Box 4: Case of Bullockcart Workers Development Association (BWDA)*

BWDA was registered in 1986. It started forming women SHGs in 1996, on lending in 1999 and entered into partnership with FWWB in 2002. The table below captures some of the key performance figures and inputs given to BWDA over the project period.

Parameter/ Indicator	2002-2003 (Mar '03)	2003-2004 (Mar 2004)	2004-2005 (Sept 2004)
Total membership	74,843	87,625	100,745
Total borrowers	13,884	20,154	27,493
Borrowers to members	18.5%	23.0%	27.2%
Outstanding (Rs lakhs)	196	234	529
FWWB loan outstanding (Rs lakhs)	10	37.5	126.78
Repayment rate	94.36%	97.6%	92.82%
PAR > 30 days	4.68%	9.9% (PAR >60days)	9.39%
Op. self sufficiency	109.7%	101.9%	131%
Training programme		Fundamentals of accounting	Micro enterprise development
Training programme		Financial analysis	
Training programme		Performance standards for MFIS	
Training programme		Strengthening gender perspectives in mF	
Training programme		Strategic business planning	
Exposure		Exposure: Sadhana Micro fin	Sri Lanka
TAV focus		Improving MIS & a/c systems	

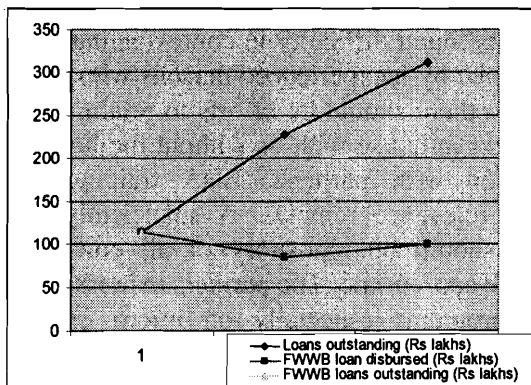
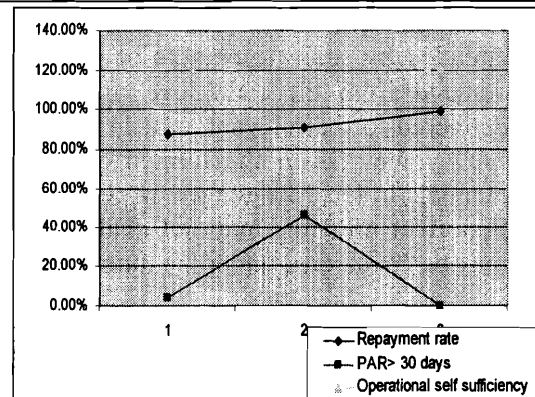
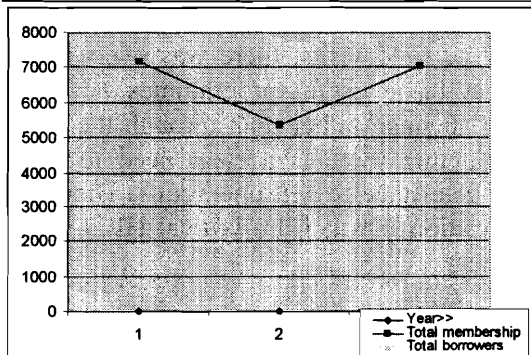


* Data source: FWFB note on partners

Box 5: Case of Sharada Women's Association (SWA)*

SWA was initiated in 1998 with education of slum children. It started MF in 2001. The table below gives its performance over the project period including CB inputs.

Parameter/ Indicator	2002-2003 (Mar '03)	2003-2004 (Mar 2004)	2004-2005 (Sept 2004)
Total membership	7,165	5,366	7,037
Total borrowers	6,715	4,727	6,494
Borrowers to members	93.72%	88.09%	92.28%
Outstanding (Rs lakhs)	115	227	312
FWWB loan outstanding (Rs lakhs)	114	134	179
Repayment rate	87.50%	90.80%	99.00%
PAR> 30 days	4.00%	46.00%	0.02%
Op. self sufficiency	123%	107.00%	121%
Training programme	Auditor's WS	Fundamentals of accounting	Micro enterprise development
Training programme		Financial analysis	
Training programme		Product development and interest rate setting	
Training programme		Auditor's WS	
Training programme		Strategic business planning	
TAV focus-very intensive, outsourced		MIS, A/c systems and OD inputs	



* Data source: FWWB note on partners

A similar analysis of IDP, Sharada Women's Association (SWA), given in Box 4 indicates the following.

- The year 2003-04 was a very critical year for SWA. The number of members and borrowers dropped indicating serious problems. The portfolio quality was also severely effected and PAR touched a high of 46%
- However, SWA has been able to bounce back from the brink, with the number of borrowers reaching earlier levels as also improvement in portfolio quality and operational self-sufficiency reaching to 2002-03 levels.

Interaction with the SWA leadership reveals that it has been able to come out of the problem, essentially due to intensive Technical Assistance (TA) that was provided. TA was outsourced as it was not possible for FWFB staff to provide the same. FWFB helped in identifying a suitable consultant/agency for the purpose and provided funds for the same.

TA visit by FWFB personnel or by outsourced personnel are very effective capacity building instruments provided they are followed up at regular intervals. TA helps in contextualizing, adapting and incorporating inputs provided during trainings. Outsourcing technical assistance for partners requiring such support and developing a pool of consultants/agencies on different topics in various regions should be a proactive capacity building strategy of FWFB.

The training modules organized by FWFB have contributed in no small measure in bringing professionalism into the management of MF operations. Given the fact that chief executives of almost all MFIs have taken up microfinance while coming from an NGO background with a welfare orientation, the credit for their business like approach should partly go to the series of good training programmes organized within and outside India, some of them at the initiative of FWFB. Many of these courses were in English and attended by senior members of MFIs. During the field visits, there was overwhelming demand from the field level functionaries that these useful programmes be directly delivered to the relevant staff in MFIs in local language rather than through the indirect TOT route. Given the limited training infrastructure there is a clear need to prepare manuals in local languages on select themes of relevance to MF operations. Though this important initiative may not qualify as an innovation it will fill a critical HRD gap and may be considered under the innovation component.

The technical trainings by EDA Rural Systems were found to be very useful by some partners but not all of them could make use of the inputs provided, since, the illustrations used were from outside the country. Participants found difficulty in contextualizing to their situations. Later trainings of EDA were conducted by inexperienced persons who inspired little confidence. EDA trainings are costly, and there should be efforts to retain, use and adapt the teaching material to the Indian context in-house with or without the help of an external resource person, or in collaboration with partners. EDA trainings were discontinued in the third year, though their relevance remains. A sufficiently senior training manager at the Head Office level should be repository of all content and knowledge and should work to make them more appropriate. The partners expressed lot of appreciation for the Credit Plus training programs especially on micro enterprise promotion.

Providing one off training program is not very effective in transferring knowledge into practice. Follow-up trainings or workshops are required to help the MFIs translate some of the training inputs into their organizations. However, this increases the overall cost of providing inputs.

Effectiveness of trainings and inputs provided is also linked to the receptivity of the respective organization. Partners that are exclusively focussed on MF are better suited to gain from the CB inputs. Spandana which started as a GP has moved to become BP within a span of five years. It has internalised the CB inputs and used it to grow.

5.2. Differentiating Partners for Capacity Building

For the capacity building efforts to be more effective they have to be more aligned to the specific needs and stage of growth, growth trajectory and aspirations of partner organizations. Not all partners would like to grow to a large size nor do they have the capacity for that kind of growth. The content and pedagogy of CB inputs to different MFIs should vary with the type of partner. A new typology from the perspective of capacity building linking foci and characteristics of MFI is suggested in Table 6 below.

Table 6: Capacity building typology

Sl. No	Type	Organization focus	Promoter/leader Background	MFIs
1	Type 1	Credit	Credit	Share, Spandana, Cashpor, SKS, Saadhana, Bandhan
2	Type 2	Credit	Social	Sharada, Bharata Swamukti Samasthe, Grameen Koota
3	Type 3	Multiple programs (Established)	Social	Shepherd, CDC, BWDA, ESAF, Mahasemam, etc.
4	Type 4	Credit	Community leadership	MACS
5	Type 5	Multiple programs (Beginners)	Social	General Partners

The movement of partners across different progressive stages is closely linked to the organizational focus and background of the promoter. MFIs that hold most promise in achieving wide reach are the Type 1 organizations that have been started by promoter/s with credit background and focus only on credit. Organizations that are not yet in the category of BP but are Type 1 e.g. Bandhan and Saadhana need greater attention, facilitating support and inputs.

MFIs of type 2, in IDP category are also quite promising and would need handholding or mentoring in the form of Technical Assistance to move ahead. Their rate of growth would be less dramatic than the Type 1 organizations.

Type 3 organizations involved in multiple programs would have a trajectory of growth till they reach a critical level in their internal competency. After a certain point the growth in clients would plateau and activity would become intensive in the local area. Such organizations are suited for credit plus activities.

Type 4 organizations are MACTS which are legally and structurally well suited for taking up community level activities and for devolution of power to the community. However this remains a little understood area from the point of view of capacity. Action research should be taken up and strategic alliances built to develop suitable capacity building packages for MACTS. This is an important area requiring urgent attention lest these entities become casualties in the process of sector development.

Levels of capacity building

In the southern region, where micro finance is more developed, FWWB has been focusing primarily on the first level of capacity building i.e. targeting the leaders in the MFIs. In the western region, where MF is taking roots, FWWB staffs conducts trainings at the level of staff of MFIs/NGOs. However, there is a universal need among all MFIs to provide for CB inputs for the second line staff. This has to be in the local language and pitched at their level of requirement. Following are the broad levels of capacity building required at different levels in the MFI.

1st level: At the level of leadership of the MFI – they need three capacities:

- Clear perspective and vision for the organization with quantifiable growth plans and indicators
- Understanding, knowledge and skills of financial aspects of micro finance
- Managerial wherewithal to manage large growing operations.

2nd level: At the second level are Managers and Supervisors, Branch Mangers, and specialists like MIS officer, internal auditor, training officers, etc. in the MFIs. The capacities required at this level are:

- Clear understanding and knowledge of financial aspects of operations – interpretation and diagnostic ability to monitor and rectify things that go off track
- Managerial acumen and knowledge
- Ability to guide juniors
- Technical training for specialist officers in their respective disciplines (not to be merged with the general training)

3rd level: At the level of credit officers who are at the cutting edge. The capacities required are

- Understanding and skills of operationalizing MFI systems and procedures
- Skills of interacting and motivating community members – group formation, etc.
- Diagnostic abilities

It is not possible, nor is it advisable, for FWWB staff to have all the required skills for providing capacity building inputs at the different levels. However, it is important for its staff in the project to have skills of capacity needs assessment of the partners, clarity on content required for training, networking ability to draw and negotiate with CB service providers – individual and institutional, capacity to monitor the quality of the CB inputs/training programmes, etc.

FWWB should draw on its partners having appropriate attitude and skills to provide capacity building inputs to co-partners for CB inputs to second level staff. The training should be in vernacular. Since there is a major concentration of partners in AP and TN, it

is important that partners be developed as vernacular training providers to second and third level staff. However, FWWB would need to monitor the quality, effectiveness and application of these trainings on the ground. One partner that indicated its keenness to play this role was Saadhana MicroFin in Kurnool, AP. FWWB should support attempts to set up internal HRD/training department in MFIs

There is need to develop road maps for organizations that are graduating from the SHG route to large scale micro finance service providers. They continue to work on the SHG methodology and adapt it to scaled up MF requirements. However, different aspects and nuances of SHG methodology need to be worked out to suit them to large scale micro finance operations like in the case of Grameen Bank methodology of micro finance. The additional advantage with Grameen Bank methodology is that systems and procedures have been worked out in greatest detail and the solutions are available off the shelf.

Various aspects, systems, processes, and subtle nuances SHG model of micro finance needs to be standardized. Some of these aspects are

- Communication and messages to members at the time of group formation
- Group quality parameters and thumb rules to achieve high financial performance
- Staff training and development for maintenance of financial discipline and efficiency
- Internal peer pressure mechanisms for ensuring repayments
- Standardization of systems and procedures
- MIS and software for tracking loans and generating reports

It is important for FWWB to undertake impact assessment on partner organisations as well as ultimate beneficiaries of its various services and initiatives. FWWB may initiate action research/ pilot projects for effective methodologies that are cost effective and not too time consuming.

There is simultaneous need to create sufficient number of service providers and consultants in SHG methodology of MF. They would offer packages off the shelf for delivering various products from training modules to software with highly determinate outcomes.

6.0 Addressing Gender issues in Micro Finance

While it is true that targeting women only does address gender inequity over the long term, it is not adequate to address gender issues that recognize position of women in relation to men as actors in the society – in the context of husband and families, local community and more broadly their position in the society. There is need to act in support of women and help them overcome the obstacles they face in these relationships, obstacles which prevent them from achieving what they wish for themselves. This could, to some extent, be done through financial services. Microfinance on its own does not have the ability to right the power imbalances which result from inequalities in the way society treats men and women. In order to address gender concerns it is important to make clear commitments and approach the matter strategically. This has to start with FWWB itself and extended to its partners through influencing and gradually introducing points of negotiations in maturing relationships and stable MF operations.

FWWB has been conscious of the gender issues in its partners. It carried out detailed study of level of awareness on social and gender issues in nine partners. These were quite detailed studies based on focused group discussion with staff in the respective organizations. The overall assessment was that the understanding of such issues ranges from poor to average in six out of nine organizations studied. As a follow up of the study a training module on gender was organized. These programs help to sensitize the partners on gender issues but not much is likely to happen in terms of concrete action. FWWB should work towards addressing both practical and strategic gender needs.

In micro finance, practical gender needs may be addressed by designing gender sensitive loan products. Loan products for purchase of items like cooking gas, pressure cookers, utensils, water storage devices, etc. would reduce drudgery in household chores and should be actively introduced by the partners. Loan products in conjunction and linkage with government programs would address more advanced practical needs of women like those of toilets, provision of drinking water near home, piped water, etc. Most of the government schemes require some up front contribution. This could be provided through loans so that poor and women are able to avail the benefit of the government programs. Studies to identify practical gender needs in partners' operational areas should be supported.

Gender specific loan products combined with affirmative action by incentivising loans by providing interest rebates of 2 to 3 percent as back-handed subsidy would go a long way in goading partners to take concrete steps. Subsidy to a partner can be phased out over a period of two/three years. 'Gender Affirmative Action Fund' should be created within FWWB for providing interest incentive/rebates to partners.

FWWB should also encourage partners to address strategic gender needs that address the critical men-women equity relationship. This can be addressed by FWWB sensitizing and insisting upon incorporation of good gender sensitive practices in the processes of the partners. Some illustrative suggestions to address strategic gender needs that can be incorporated are: compulsory registration of property procured from loan fund are registered in the name of women or jointly with the husbands; compulsory counselling of husband and wife when the loan amount is high to ensure the say of women over usage and control over the asset purchased.

The SHG base of micro finance activity, unlike the grameen model, is well suited for collective action by women for expressing their solidarity and empowerment. The Grameen Bank model of micro finance is too narrowly focused on financial transactions and as a rule does not allow discussion of other issues lest financial discipline is affected or takes longer to carry out meetings affecting staff efficiency and productivity. There is a trade off between strict financial discipline and high growth and performance, and more socially wholesome interventions. Multi activity organizations involved in micro credit are more suited for the latter.

Savings are a very important safety net and source of assurance for both low-income women and men, particularly for single-mothers or women who face an uncertain future. It is possible to encourage savings in the SHG model of micro finance, where the savings remain with the group.

7.0 Promoting Innovation in MF

Utilization of the innovation fund has remained low. Up till now, six projects (Table 7) have been taken up under the innovation fund. All the projects are unique from MFI perspective; however, only three are linked directly with micro finance activities. The scope of the innovation fund needs to be expanded to include action research and studies that go to strengthen micro finance.

Following are some areas that could be taken up under innovation fund.

- Study and design of women specific loan products – addressing women’s areas of vulnerability, stress, drudgery, etc.
- Research and design of financial products for urban areas and other special areas like financing agriculture in drought areas (urgent in western region), flood prone areas, etc.
- Financing of community assets/services like drinking water pumps, transport, medical-centre/clinic/doctor, water devices, commodity storage godown, veterinary services, grain banks, etc. Action Research needs to be conducted to develop appropriate models – community owned, service provider bases, etc. – for replication.
- Study and research into making the SHG based model of micro finance as robust as the Grameen Bank model from the perspective of replication. This would require microscopic study of different components that go into making the model robust and replicable.
- Supporting pilot projects for credit plus intervention – micro enterprise, eco-friendly initiatives, health, rural housing, insurance, stores, rights & entitlements, education, linkage with panchayats, etc.
- Supporting ‘livelihood cluster’ financing - production cluster/services cluster
- Supporting pilot projects on nurturing new MFIs in eastern /central region around selected professionals in the absence of good NGOs.
- Fellowship programme for development of experts (for providing services on cost sharing basis) and MF startups
- Innovation fund can be used to integrate MF with other interests of USAID especially with health insurance. COVA is a common partner in another USAID supported project⁹ in Hyderabad.
- Documentary film on MF impact and case stories documentation
- Creating directory of location specific enterprises
- Exploring technology of micro finance – starting with scanning available technology internationally and initiating some pilots projects around them.

MFIs are often not able to see beyond day to day operations. Hence, access to Innovation Funds needs to be extended to individuals and agencies having good ideas provided they are able to tie up with some MFI/NGO and there is mutuality of purpose and benefit.

Looking at the suggested expanded scope of the Innovation Fund it could be renamed as “Innovation, Research and Development Fund.”

Table 7: Projects under Innovation Fund

⁹ Breaking the Circle of Despair, A HFF-HSO project in health insurance administration

Sl. No.	Organization	Theme
1	OAZONE	Information resource centers
2	CENTREREDA	Bridge Schools
3	Viveka Sv. Society	Skill up gradation (leaf plate)
4	COVA	Informal education for drop out girl child
5	BWDA	Credit card for SHG members
6	FARR	Mobile weekly MF counters in tribal areas

8.0 Policy Advocacy

Policy advocacy must be a concerted effort by number of actors and stakeholders. It is not as effective when done alone, when it is often interpreted as lobbying for singular gain. Thus FWWB should work in tandem with other organizations that are doing policy advocacy to have MF friendly policies and legal environment. Sa-Dhan, a national level association of community development financial institutions is technically better suited to represent the interest of the sector. FWWB must have greater synergy with Sa-Dhan¹⁰ and other regional networks for policy advocacy at the National and State level. FWWB should continue to generate competitive pressure on Sa-Dhan so that the latter it is kept on its toes. For this FWWB should closely collaborate with Sa-Dhan and take up some joint activities through sharing of human and financial resources. The recent budget announcements on microfinance are quite encouraging and are being vigorously pursued for follow up action by Sa-Dhan. FWWB should continue to extend necessary cooperation to Sa-Dhan in the policy area.

The MACS Act has been promulgated in six States. It provides enabling environment for the emergence of financial intermediation through federations. MACS have the additional advantage of being able to collect savings, which is one of the most important services. (In fact some studies reveal that often savings is a greater need than credit among the poor.) There is need to carry out comparative study of MACS Acts of different States. The Act in Orissa has removed some of the anomalies in the one in AP, which was the first State to come out with the Act. There is need to advocate changes in the MACS Act in AP too as some of the provisions are not suited to financial intermediation by MACS, as it fails to recognize the informal SHG structure. The Orissa Act fits into the SHG cluster, federation paradigm. Finally, there is a strong need to advocate MACS Act in Tamil Nadu on a priority basis, as a number of partners are working with the SHG model and are reluctant to take on the role of financial intermediation themselves. Such organizations may like to opt for the MACS model in future.

There is also need to create regional level learning and experience exchange platforms. These platforms could be used to negotiate with banks and other mainstream institutions, besides advocating at the State level on issues affecting the sector.

It is important to capture the impact of micro finance at the grassroots level on a continuous basis and use it for policy advocacy. Policy advocacy is hence seen as a continuous process, moving from one mile stone to the next. It is recommended that evaluation of the impact of its assistance on clients of partner institutions of FWWB be

¹⁰ Sa-Dhan is also supported by USAID for policy advocacy at the national level

carried out at least once in two years through a reputed agency. Impact findings from independent evaluation studies on the contribution of microfinance could then be effectively used to push the policy agenda.

9.0 Institutional Strengthening of FWWB

One of the key objectives of USAID project is institutional strengthening of FWWB. As a second tier organization it has to have very different set of competencies that the MFIs working are the grassroots. Institutional strengthening has to be seen in the context of its structure and roles determined by the expectations of its stakeholders.

9.1. FWWB Structure

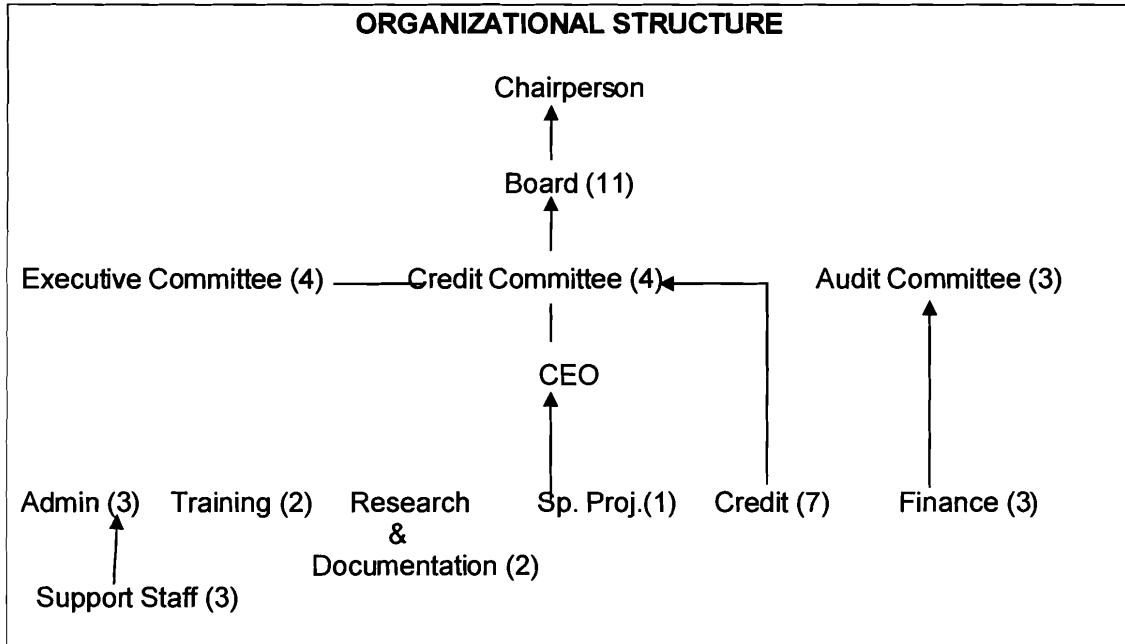
FWWB is governed by a 10-member Board of Directors consisting of practitioners, professionals and academicians drawn from development and finance backgrounds. The Board has been providing guidance and direction to the organization and has been appreciated by review and rating organizations. At the present juncture, and in the light of observations and findings in the report, the Board must review the objectives and strategies of the organization and lay down clear guidelines for the management in the coming years. The Executive Committee, Credit Committee and Audit Committee are the three committees constituted by the Board to take care of the respective functions. The Chief Executive Officer forms part of the first two committees and an external member is present on the Credit Committee.

The Head Office (HO) is in Ahmedabad, Gujarat and the Regional Office (RO) in Chennai, Tamil Nadu. The latter was established in August 2002. Present staff strength is 22. The RO has the jurisdiction of the southern and eastern states, and has helped ease the pressure on the HO with regard to administrative matters, monitoring and travel. All financial authority is vested in the HO. Delegation of financial authority to the RO may be considered after laying down a policy and procedure framework for the same. Boxes 6 and 7 give the organogram of FWWB with the reporting lines.

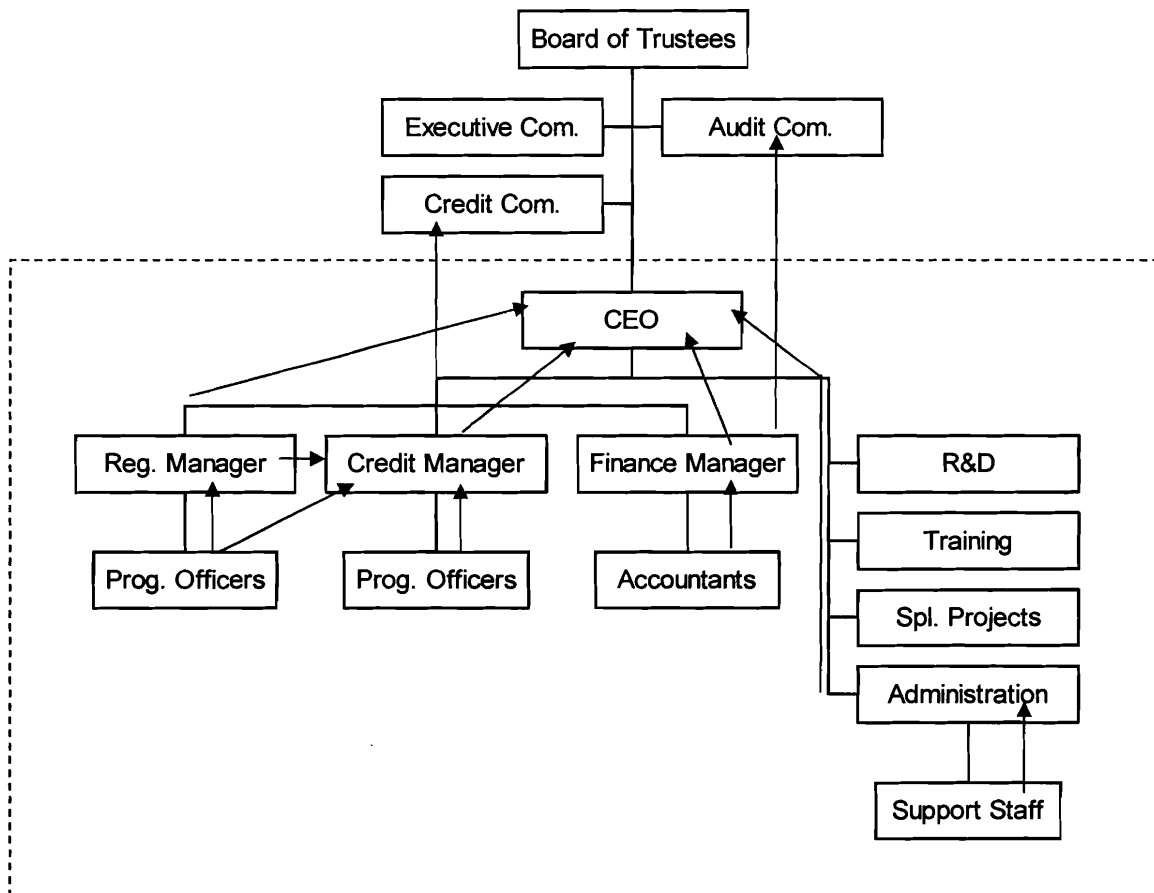
It was stated that the organization is considering establishment of zonal offices (three) as a step towards decentralisation. Currently day-to-day decision-making is centralised at the level of senior management in the HO. Recruitment of a person for taking charge of day-to-day operations will relieve the CEO of routine operational matters.

A senior person with expertise in training and capacity building is required to be posted for guiding and developing the capacity building team and for taking care of the training requirements of FWWB staff. A strong second line of management that can effectively take part in the decision-making process needs to be developed at HO, RO and the proposed zonal offices. A systems-based decision-making process must be put in place, with adequate space for discretion and judgement at appropriate levels, within an overall policy framework. Inter-office communication needs to be improved. Staff at both offices need to be kept abreast of progress, developments and events that are of relevance and interest to them.

Box 6



Box 7



9.2. Human Resources

Staff turnover is a cause for concern. Compensation structure, incentive systems, insufficient delegation of power, better opportunities outside the organization and personal reasons are cited as common reasons for resignation. The organization recruits graduates and post graduates through campus placement and through references. The market for bright talent is on the rise and offers attractive compensation packages. FWWB is conscious of this feature and has also received negative reactions from clients for the time spent by them in initiating new people into the job at frequent intervals.

It was observed by the HR consultant that a 15% attrition rate is in itself not high, but the 15% represents the 'performers'. Compensation needs to be aligned to performance so that there are suitable rewards for good performance. The salary may consist of a fixed and a variable portion, the variable portion being linked to measurable performance criteria. The system of appraisal must take into account the different nature of the tasks involved in the credit function and the capacity building functions. A career growth path for good performers will be motivating factor. Files (POs) could be allocated among the staff independently or in teams and performance could be measured in terms of targeted outputs. Optimal delegation of power for good performers is in itself an incentive and recognition of merit. At the same time disincentives for poor performers should also be worked into the system. A HR consultant was appointed in April 2004. The present consultant (part-time) is assessing and analysing various dimensions of the organization's HR policies and offers guidance.

FWWB staff receive training and capacity building inputs from a variety of sources - domestic and foreign. Training inputs in the period 2002 - 2004 covered, broadly, the following areas:

- Finance and accounting in MFIs
- Microenterprise; income generating activities
- Training of trainers
- Operational issues in microfinance
- Development of training material
- Market research

Besides regular training programmes, FWWB staffs are exposed to:

- Visits to MFIs within and outside the country
- Training programmes conducted for POs
- Workshops on topics of relevance to MFIs

The topics are widespread and help in building the skills of the staff to address client needs. However there is scope for improving the capacity building of FWWB staff and for making it more effective. Important strategy elements that are suggested are:

- Objectives of training inputs should be aligned with goals of the organization
- Training objectives should be specific and measurable / assessable
- Contextual relevance of training programmes
- Analysis of training needs at the level of the individual in the light of: competencies required for tasks handled at present; competencies required for

tasks and responsibilities envisaged for the future; partners/ cases handled by the individual and requirements of the same

- Mechanisms to assess the extent to which the training is internalised by the individual in his/ her job
- Sharing of learnings and experiences from programmes, visits and exposures within the organization in a structured manner
- Training calendar to be drawn up for one year in advance in consultation with staff
- HR strategies for the organization should feed into the overall training framework
- The training manager should constantly guide and review the training strategies

New areas for training could be the following:

- Market research and Customer surveys
- Product development
- Impact assessment
- Rating tools
- Legal and regulatory aspects in MF
- Accounting standards
- Corporate law
- HR in Non Profit Organizations

The project document envisages a targeted output of 450 days of US training to FWWB staff while the number of training days recorded in years 2 and 3 of the project are 21 and nil respectively. The parameters on the basis of which this figure has been arrived at is not stated. However the target output needs to be reviewed in the context of the overall training strategy for the organization, the contextual relevance of overseas training programmes and specific needs of the staff and of the POs. The targeted output for exposure visits - in country and outside - also need to be reviewed in the light of contextual relevance and need / utility of such exposures.

FWWB has been responsive to the various demands for capacity building made on it by clients. The support extended by FWWB in helping the organizations, particularly in their early years, is greatly appreciated. This speaks of the quality and calibre of the capacity building staff, who work alongside the credit team, in meeting the needs of the client. With expansion in scale of POs and with increase in the number of organizations taking up microfinance activity, the range of needs is getting wider. Organizations at different stages of growth have requirements at different levels ranging from basic needs to sophisticated business techniques and applications. While it is not envisaged that FWWB itself will be a one-stop solution for all requirements, it could diversify its products and services to help the organizations find appropriate solutions. Skill sets required in FWWB staff in order to meet new and diversified demands of clients need to be assessed and appropriate inputs given to staff. Recruitment of new staff must also take care of these requirements. Networking with other training institutes will result in synergies and economy.

Premium rates on the loan funds package because of value added inputs will gradually wane in acceptability as interest rates move southwards. Capacity building costs need to be segregated from the interest rates charged on loan funds. Looking at the non-banking basic intent of FWWB, the institution could very well reposition itself as a capacity building body and focus its energy on its core mission of identifying & nurturing grass root microfinance institutions. One disadvantage of this approach lies in the loss of effectiveness of CB inputs outside the contours of borrower-lender links. In order to

remain competitive and for reasons of financial viability FWWB should evolve a strategy that enables it to leverage its strengths and expertise in capacity building to earn revenues. A multi-pronged approach may be considered whereby FWWB sources soft funds for its developmental and capacity building activities; considers cost sharing by clients for certain services rendered; and offers for a fee other products, like rating and consultancy services.

9.3. S WOT Analysis

Analysis of strengths, weakness, opportunities and threats (SWOT) of FWWB as perceived by the reviewers is give below. It is given to aid FWWB in reflecting over its strengths and weaknesses to work on the opportunities in the environment and plan for working around threats. .

Strengths

- > Rich experience in development and finance related issues at grassroots level and at level of MF organization
- > Enjoys goodwill of clients
- > Is recognized in the national MF sector as a major player and a dependable guide
- > Is well networked with domestic and international MF platforms (importantly Sa-DHAN and Women's World Banking)
- > The Board consists of development and finance experts with rich experience

Weaknesses

- # Mission statement lacks clarity resulting in unclear priorities in the minds of the management and staff, esp. with regard to development vis-à-vis financing roles
- # Management of HR is weak resulting in staff attrition, weak bonding, inadequate communication and not too satisfactory compensation packages
- # The organization has only two offices, in Ahmedabad and in Chennai, to manage POs in about 10 states
- # Authority is mainly centralized in the Head office in Ahmedabad
- # Decision making is centralized and is perceived among POs to some extent personalized

Threats

- ◇ Financially stronger players showing increasing interest in the sector and targeting good clients
- ◇ Lenders coming in with lower interest rates that are in tune with the market
- ◇ As a result of increasing awareness levels among clients the latter go 'shopping' for the 'best bargains'
- ◇ Fund supply to the sector from domestic source - government and private, and foreign sources on the increase; consequential impact on quality at the ground level
- ◇ High density of MFIs in some areas leads to 'client snatching'
- ◇ Growth of the sector has resulted in high staff attrition rates

Opportunities

- FWWB could build upon its experience to strengthen potentially good MFIs and link them to mainstream finance
- Capacity building role of FWWB could be expanded and diversified to meet the growing and diverse needs of MFIs

- Select capacity building activities could be structured as business activities earning income for the organization
- Competing with strong and efficient players will lead to increased efficiency in the organization
- Increasing importance of the sector affords greater opportunities for FWWB's role in policy advocacy in association with Sa-Dhan

The role to be donned by FWWB in future should be in tandem with current and foreseeable developments. There exists at present a certain amount of lack of clarity within the organization on the role of FWWB as a lender vis-à-vis its role as a capacity builder in matters where the two do not converge. The organization should aim at convergence of its own strengths and experience with that of other players and not see itself as confronting or competing unfairly with them. The mission and objectives must be clearly laid down and requisite guidance provided by the governing body and management.

9.4. R eallocating Resources

Utilization of amounts under each of the six budget heads, viz. capacity building, FWWB staff development, policy and research work, innovation fund, monitoring and evaluation and audit, and administrative support (consisting of sub heads project personnel and staff time, indirect cost and infrastructure) is below the amounts budgeted. The total amount utilized (Rs. 17 million) from project inception upto the first quarter of 2004-2005 (i.e Dec 2004) is 28% of the total amount (Rs. 61.1 million) sanctioned under the project, with percentage utilization varying among budget heads.

In interactions with FWWB it was learnt that FWWB would welcome more flexibility in budget reallocation within the overall amount. Decrease in amounts allocated for capacity building, FWWB staff development, monitoring and audit and increase in amounts allocated for policy and research work and administrative support (under the sub heads project personnel and staff time and infrastructure) have been suggested by FWWB. A larger network of FWWB offices, separate costing for capacity building resources expended by FWWB research activities and pilot activities like the fellowship scheme (suggested earlier in the report) would also require a re-look at the amounts allocated under the various heads. Utilization of amounts could also be periodically reviewed by the Project Advisory Committee.

10.0 Future Perspectives

10.1. Change in MF Scenario

The microfinance sector has been experiencing tremendous growth in recent years. FWWB partners too have been growing at an impressive rate. Over last three years the membership base of partners has grown three times, number of borrowers over six times and portfolio five times. Likewise, the reach of the top ten partners of SIDBI during the last three years has shown a remarkable average growth of 112 %. The progress under Bank-SHG linkage of NABARD is commendable with a total reach of 1.09 million SHGs at end March 2004. The average increase in number of groups during last three years has

been impressive at 49% with refinance disbursement at about 40% during the same period. There is much better visibility and appreciation for microfinance activities at all levels.

Till recently, while the public sector banks were mainly using the self help groups for channelising their financial assistance to the poor, the new generation private banks were utilizing the reach of grass-root community microfinance institutions to reach the same client group. Lately, even public sector banks have started financing well rated MFIs for on lending to the poor. There is in fact a new enthusiasm in the banking sector for microfinance which is being increasingly seen as good business on account of attractive risk adjusted yields.

For several reasons including non-corporate organization forms, weak balance sheets, non professional management & governance structures, the community MF institutions were not considered for equity investment by banks and other private investors till almost the start of FY 2005. Low equity has started acting as a constraint in leveraging large funds from the banking system. However, with declaration of maiden dividend by Share Microfin Ltd. for the year FY 2004 and strong likelihood of similar dividend payout by few more institutions during FY 2005, equity investments in MFIs is becoming a reality.

Encouraged by impressive growth and highly satisfactory track record of several of their partners, SIDBI as well as ICICI are seriously looking at equity investments not only to enhance partners loan entitlement but also to have more management say through Board positions. Furthermore Bellwether fund, with an equity window and with initial commitments from Tridos Bank and Grayghost Fund of US \$ 5 million, has been launched in January 2005. Grameen Capital, jointly promoted by Grameen Foundation, USA, ICICI bank and Citigroup India, is in operation. UNITUS, a US based microfinance equity investor, has set up office in Bangalore for equity investment in selected MFIs and SKS is the first to receive UNITUS commitment. Care India has prepared a blue print for a growth fund which interalia would provide equity/loan/ capacity building funds to well managed small and medium level MFIs to enable them to move into the big league. Private NRI investors¹¹ are close to equity investments in select MFIs. With this new business take on MFIs, quite a few of the microfinance institutions including partners of FWFB would soon have the size and strength of small local banks necessitating a new relationship of the institutions with their mentor (FWFB).

Over the last few years there has been increased recognition of the role played by the community MF institutions in women empowerment and well being. With the new thrust of the central (UPA) government on agriculture and rural development, the financial and social intermediation role played by the MFIs is receiving special appreciation of top bureaucrats and politicians. There is also a strong possibility of loans by banks/ financial institutions to well rated MFIs being made eligible for guarantee cover by the Credit Guarantee Trust for Small Industries. MF activities are thus slowly but surely getting into the mainstream banking domain with better official recognition and legitimacy. This necessitates a critical look at the working of FWFB and the contours of its new relationship with its partners.

¹¹ like Mr. Ashok Khosla

10.2. Repositioning FWWB

Developments in the sector, the client profile and changes within the POs pose new challenges for FWWB's continued journey towards its stated mission. The institution has so far enjoyed clear space for its business operation besides playing the leadership role in nurturing a large number of community financial institutions. Of late however, the interest of mainstream financial institutions in well performing MFIs is gradually weaning away the organizations 'Big' partners. As more and bigger financial players enter the market the big as also the good MFIs (which may not necessarily be big) will be served by the former. This augurs well for the sector and FWWB should see this as an opportunity rather than as a threat. New and diversified financial and capacity building products will help FWWB retain its clients and add to its portfolio. The scope and level of capacity building or technical services required to address client needs fall within a broad spectrum depending upon the stage of growth, maturity and size of operations of the PO. FWWB may consider structuring select capacity building activities as business activities that generate earnings and diversify the revenue streams of the organization.

Throughout our field interaction there was high appreciation for the efficiency in loan disbursement and empathy in business relationship. While for six large partners, FWWB is presently meeting mainly the gap in their resources, in the case of well performing ID partners, FWWB is generally one of the major lenders. In the case of 'young' NGOs, FWWB is the sole lender. After SFMC, it is FWWB whose sanction letters have facilitated MFIs in their borrowings from commercial banks. With new focus on sustainability and healthy balance sheets, MF institutions are becoming more and more interest rate sensitive. With Share Microfin Ltd declaring dividend for the financial year 2004, a new trend in favour of profitability is visible. A 2 % reduction in rate of interest in the cost of three leading partners (Spandana, SKS, Cashpore) would enable them to declare a dividend of more than 10 percent. In a scenario where large number of public sector banks in addition to private banks are looking at microfinance as a profitable area of business, it is not surprising that most of FWWB large partners are able to borrow at rates which are lower by 3-4 % than those of FWWB.

While the partners of FWWB are willing to pay a higher rate not only because of long parental type supportive relationship but also for quick and efficient loan service offered by it, a rate differential of more than 150-200 basis points is being increasingly resisted. Stiff competition in certain pockets, higher political scrutiny on interest charged, lender-induced new stress on sustainability, desire to declare dividend to attract commercial capital are some of the reasons for the new rate sensitivity. In several cases, questions of ethics and welfare of the poor are also being raised by Registrar of Societies before accepting financial services as one of the permissible activities of NGO-MFIs.

The microfinance philosophy that availability of door-step financial services matters more than the cost of the services is being increasingly debated by the industry. In the circumstances, the rate of interest for the large as well as well performing IDPs would need to be reduced to a more acceptable level. During discussions of the evaluation team with leading partners it was indicated that a rate of interest of around 10-10.5% would allow them to maintain business relationship with FWWB. In the absence of rate reduction, large and even some of the ID partners are likely to substantially reduce their exposure and may approach FWWB only for meeting contingent or emergency requirements of shorter duration. A flexible working capital limit to MFIs by banks could

impact even the emergency business of FWWB. The withdrawal or significant reduction of business volumes by leading partners would adversely affect the current business mix of the institution. The percentage of bad debts may go beyond banking safety norms thereby affecting FWWB's ability to borrow loans at fine rates.

Given the competitive rate scenario, it is recommended that loan assistance from FWWB carry an interest band of 10-12.5% and interest in specific cases be decided upon objectively on the basis of a score chart. While recommending significant reduction in the rate of interest for the top clients, say to about 10%, the rate for the general category and some of the relatively weak ID partners should be maintained close to the existing level at about 12.5%. This is not only to subsidize the lower rate charged elsewhere or factor in higher risk normally associated with young and small development entities but also to partly cover the intensive capacity building cost of FWWB for such clients.

The internal rating exercise for all partners could be fine tuned for objective determination of institution specific interest rates. Notwithstanding the demand for lower rates of interest, as a prudent measure, certain amount of financial restructuring would need to be done so as to permit lower spreads between borrowing costs and interest rates charged. Illustratively, a risk fund of about Rs.50 million may be created for the present so that the loan loss provision of 2 % built into the spread is taken out and separately treated. SIDBI has already made an initial contribution of Rs. 5 million towards such a risk fund.

With increase in clientele and business volumes the bottom line in respect of quite a few of its partners is getting healthier¹². With increasing standardization of operations and increasing portfolio size there is a real possibility of more and more MFIs joining the pool of profitable, dividend-paying institutions. The change can partly be attributed to the desire to attract commercial capital. Selective investment in equity could be a new initiative of FWWB that would offer possibility of capital appreciation in the long term besides dividend income. Improvement in governance with FWWB nominees on the Boards of these MFIs will be an added advantage of the equity investment.

As the microfinance operations till recently were generally in red barring two or three MFIs, the necessary infrastructure and bare minimum capital assets were mainly built, as a matter of prudence, from grant funds. With limited availability of grants from donors and from SIDBI, the capital assets need have largely remained unattended. A new capital loan product could be offered by FWWB to profit making MFIs within certain prudent norms.

During field interaction, it was learnt that local branches of public sector banks are approaching FWWB partners for granting loan assistance. As stated earlier, banks are slowly developing business interest in microfinance. ICICI with its aggressive design has already taken a lead in approaching some of the not-so-strong partners of FWWB. In interaction with UTI Bank at Hyderabad and the group of lenders to FWWB at Ahmedabad, the evaluation team is of the view that several public and private sector banks would like to enlarge their client base from among the existing MFIs a large number of whom are FWWB partners. A cost effective capability assessment service, on the lines of a rating instrument, by FWWB would facilitate orderly growth of the MF activity in the country. Likewise, FWWB or its associate agency could provide paid services in the areas of internal audit as well as treasury management.

¹² A few of them are planning to declare dividend this year.

Demand for skilled expertise in several areas of MF operations is on the rise within and outside MFIs while the supply of quality professionals is woefully inadequate. Even the limited numbers are increasingly joining the MF teams being created in banks. With the entry of several new institutions, the demand–supply gap would badly hurt the sector. Besides re-looking at the range and pricing of its financial products, the demand for several new services is picking up. While some of these need to be provided by FWWB, for others, professionally trained business service providers could be developed. With the expected exponential growth along with associated complexities, a new urgency for nurturing a core of MF professionals is being experienced.

The institutional infrastructure already created by FWWB management i.e. the Indian School of Microfinance may well be utilised to develop a regular supply of quality professionals. The Young Professional Scheme of SFMC has not been able to contribute much to the HRD pool. It is proposed that a one year fellowship programme be launched for existing MFI employees having work experience of three years or so. While there could be class room training for about 4 months including 1 month of specialization, the trained professionals be put on consultancy jobs with partner MFIs for the remaining 8 months. Since it is expected that the candidates will leave their existing jobs, the fellowship amount may be kept at an attractive level. If required, this could be a joint initiative with some of the development Banks. Post-fellowship, the services of some of these trained professionals could be offered to partners on cost sharing basis. The benefit of this intensive investment should also go to the staff of FWWB.

The demand from mature and enterprising clients for relatively large micro-enterprise loans is gaining momentum. Suitable enterprises in competent hands could not only take the client out of poverty but create employment for others and wealth for the nation. As per the team's assessment the top rating given to the micro-enterprise training programme of Ascent could partly be ascribed to higher economic ambition of clients once the consumption smoothening aspect is properly handled. Responding to this new demand, FWWB may like to engage suitable institutions to develop well researched catalogues of appropriate micro ventures with affordable investment, easy to grasp technology and marketability. Such a project could be supported out of the underused innovation fund. The services for trade specific skill training and guidance in technology and marketing would need to be outsourced and not handled by the credit group.

10.3. Mission Statement and Goals

The review team suggests a slight modification in the original Mission Statement of FWWB considering its emerging role. The revised mission statement would read as:

Promote the development of microfinance institutions in the country to enhance women's access to financial and related services

The key changes are underlined. FWWB should actively “promote” rather than just “strengthen” emphasising that it has a pioneering role. Phrase “in the country” is added to mission statement to reflect all India stature and canvas for FWWB. Words “related services” are added to indicate that FWWB should move beyond financial services as it is increasingly being realised that just financial services though necessary are not sufficient

for alleviating poverty. Other services are equally required. This is a new frontier for FWWB.

Given the above, FWWB should have a clearly laid out road map and specific targets. The indicative targets for FWWB are:

- To identify and nurture 200 microfinance institutions for reaching financial and related services to poor - having a total clientele of 75 lakh poor women by 2010
- Portfolio size of Rs.150 crores by 2010.
- To extend all India coverage with 40 % MFIs outside South India
- To innovate financial plus services for women in the field of insurance, health, micro-enterprises, education, stores, etc.

11.0 Key Recommendations and Conclusion

In the following are some of the key recommendations made in the report. These broadly categorised as sectoral, financial and organizational.

Sectoral

- Micro finance sector development is highly skewed across the country. Most of the increase in coverage and resource flow is taking place in the southern States, especially, Andhra Pradesh and Tamil Nadu. As a national level organization, FWWB should lay specific focus on other parts of the country especially eastern States that are least developed. FWWB should develop State specific strategies for promoting microfinance. This it should take up in the focus States of USAID to start with.
- Demand for skilled expertise in several areas of MF operations is on the rise within and outside MFIs while the supply of quality professionals is woefully inadequate. With the entry of several new institutions, the demand–supply gap would badly hurt the sector. Preparing professionals for the sector is an area requiring urgent attention of FWWB. It needs to support the training of experienced professionals from MFIs independently or in association with SIDBI.
- FWWB should outsource technical assistance for clients extensively. This would contribute to development of a pool of expert service providers required by MFIs.
- FWWB is considered quite rigorous in selection of partners. However, with 50% GPs dropping out within 1.6 years, the experience can not be very satisfying. There is need to properly analyse the partnership experience, profile them and evolve a more determinate blue print and model of partnership. Generic promotion of potential clients/partners around promising professionals could be explored.
- The SHG model as evolved in the country is very powerful from social and financial perspective. However, it is not yet developed into a robust model for dispensing credit in the same league as the Grameen Bank model of MF. At present SHG model has as many variations as there are SHG promoters. There is need to study SHG model's diverse dimensions very minutely and evolve a robust set of practices, processes and systems. FWWB should commission a study with sufficiently erudite persons to debug the phenomenon and develop thumb rules that can then be replicated with determinate financial results.

- Community owned thrift cooperatives is a promising development in MF. FWFB should make strategic alliance for MACS and federation specific rating tool development and usage, capacity building, etc. It should advocate for MACS Act in States where it has not been promulgated and advocate for changes to overcome shortcomings in States having the Act.

Financial

- Given the competitive rate scenario, it is recommended that loan assistance from FWFB carry an interest band of 10-12.5% and interest in specific cases be decided upon objectively on the basis of a score chart.
- A risk fund of about Rs.50 million could be created so that the loan loss provision of 2 % built into the spread is taken out and separately treated.
- FWFB should diversify its package of financial products.
- Selective investment in equity could be a new initiative of FWFB that would offer possibility of capital appreciation in the long term besides dividend income.
- FWFB could provide capital loans to MFIs for upgrading their infrastructure.
- FWFB should create 'Gender Affirmative Action Fund' to provide interest incentive/rebates to partners to encourage them to launch gender specific loan products.

Organizational

- FWFB should decentralise its operations and bring it closer to the clients. It should open a regional office in Kolkatta. There is need for greater decentralization of responsibility and decision making.
- FWFB should restructure its staff salaries to make them in tune with the market for such competencies. It should also introduce performance based incentive system for staff. Group incentive can be introduced for non assignable staff.
- FWFB should hire a suitably senior level Training Manager for sourcing trainings and developing knowledge repository, adapting course material and extension of training benefits to partners and their staff at different level.
- The scope of Innovation Fund should be expanded to include action research, studies, documentation, etc.
- FWFB should seek greater flexibility from USAID in the usage of budget lines. This would allow FWFB to be more responsive to the strategic demands on it at different times due to fast changing environment of micro finance.
- FWFB should consider structuring select capacity building activities as business activities that generate earnings and diversify the revenue streams of the organization. It could start rating exercise for partners.

Conclusion

FWFB is in a position where it can boost further the positive developments in the sector, strengthen sector constituents and thereby continue to play an effective role as a sector builder. FWFB enjoys a good reputation and goodwill in the sector to play such a role effectively.

Annexures

Annexure 1: Terms of reference of FWWB assessment

Objective: Give future directions to the project given the context within which it is currently working

Based on the present operating environment and USAID's project guidelines.

- Assess the progress made so far in each of the four core areas of the project against the expected outputs
- Examine the effectiveness of interventions in each of the core areas of the project
- Identify and recommend areas that require further interventions
- Take a re-look at the targets and suggest redesigning if necessary
- Discuss with other stakeholders so as to have a unified approach in addressing issues
- Identify issues relating to gender communication strategies in partner MFIs

Area of focus

1. Institutional strengthening of FWWB partners: This component sought to be addressed through training programmes, technical assistance visits by FWWB credit officers and through exposure visits to best practice institutions. The focus area of review under this component would involve the following:
 - a. Assess capacity building package provided by FWWB and how it has helped partners move across categories
 - b. Recommend strategies to be adopted by the project to reach out to areas under-served by MF
2. Institutional strengthening of FWWB: Institutional strengthening of FWWB is addressed through regular reviews undertaken by the organization and addressing knowledge, skills gaps by deputation to national and international training programmes. The focus area of review under this component would involve the following:
 - a. Review of training inputs and exposure provided to staff through this project
 - b. Identify and suggest new areas for training
 - c. Review systems used in project management
3. Promoting MF friendly policies
 - a. Assess and recommend areas where policy work needs to be undertaken in the project
4. Promoting innovation in MF
 - a. Review guidelines and criteria for selection of projects under innovation fund
 - b. Identify and recommend ideas that can be taken forward through support under innovation fund.

Annexure 2: Schedule of Visits

Date	Activity	Consultants	Fwwb Team Member	Location
3 rd Jan Monday	10.30 am. Discussion with the Project Team	BM,MN&VJ	R.O. Whole team	Chennai
4 th Jan Tuesday	Visit to BWDA	BM,MN&VJ	MS & Aashish	Vizhupuram
5 th Jan Wednesday	Visit Shepherd Meeting joint meeting with SHWET, PAT CDC, PSA	BM,MN&VJ	MS & Aashish	Trichy
6 th Jan Thursday	Team discussion	BM,MN&VJ	MS & Aashish	Trichy
7 th Jan Friday	Visit SWA, COVA	BM,MN & VJ	IS, MS	Hyderabad
8 th Jan Saturday	Team A Visit Spandana Team B SMS	BM & MN VJ	IS MS	Guntur Kurnool
9 th Jan Sunday	Team A VB Macts-Guntur Team B SYA, BIRDS	BM & MN VJ	IS MS	Guntur Nadiyal
10 th Jan Monday	Discussions between the consultants during the day Meeting UTI	BM,MN&VJ	None	Hyderabad
11 th Jan	At the H.O. meeting the program team, PAC members, other stake holders	BM,MN&VJ	HO team	Ahmedabad
12 th Jan	Meeting with Amba and Vardan Trust staff	BM,MN&VJ	Dakshaben	Ahmedabad
13 th Jan	Meeting with USAID, Ford Foundation in Delhi	BM, VJ	None	New Delhi

Consultants:

Mr. Brij Mohan : BM
Ms. Mythili Narayan: MN
Mr. Vinod Jain : VJ

FWWB Staffs

MS Meera Sundararajan
I S. Indrani Singh
Aashish
Dakshaben

Annexure 3: List of organizations visited/interacted with

Date	Organisation	Name of person	Designation
4.1.05	BWDA	Mr. Joslin Thambi	Director
		Ms. Shanthi	Credit manager
		Group meeting with staff	11 – cluster/block coordinators
		Branch staff meeting	Manager and accountant
5.1.05	PAT	Mr. Stephen	Secretarys
		Mr. Ezhumalai	Coordinator – mF
5.1.05	SHWET	Mr. David Mansingh	CEO
5.1.05	CDC	Mr. Pandiyan	CEO
5.1.05	SHEPHERD	Mr. Peter Palanisamy	CEO
5.1.05	PSA	Mr. John Peter	CEO
		Ms. Thamizhselvi	Manager – Credit programme
7.1.05	SWA	Ms. Girija Ramamurthy	CEO
		Mr. Ramamurthy	Secretary
		Ms. Archana L	Programme Monitor
		Mr. Rahul Viparthy	MF tech consultants
		Ms. Nisha Singh	MF Tech consultants
7.1.05	COVA	Mr. Ali Asghar	Executive Secretary
		Ms. Shobha Uttam	Coordinator
		Ms. Fehmida	Asst. Coordinator
8.1.05	Saadhana Microfin Society SMS	Mr. Ernest Paul	CEO
		HO staff separately	6 – managers
		Group meeting with staff	18 Unit Manager and CO
9.1.05	BIRDS	Sri.M.C.Josiah -	President
		Sri.V.Paul Raja Rao –	CEO
		Group meeting with staff	6 – managers
9.105	SYA	Mr. S.C. Hassain	CEO
		Mr.K Chandrashekar	Manager MIS
		Mr. Ravi Kumar	Manager Finance
8.1.05	Spandana	Ms. Padmaja & staff	CEO
9.1.05	V B Macts	CEO and staff	CEO
12.01.05	Amba	Joint meeting	Credit manager, women leaders
12.01.05	Vardan Trust	Joint meeting	CEO, staff, women leaders

Annexure 4: Data on General Partners - non MACS

	Name of Organization		Name of Organization		Name of Organization		Name of Organization		Name of Organization	GPs	Nos current	Moved category	Drop ped out	Yrs partn ership	Yrs curre nt GP	Yrs of GP dropp ed	Yrs of move d cat.
	2001 March		2002 March		2003 March		2004 March		2004 Dec								
	Andhra Pradesh		Andhra Pradesh		Andhra Pradesh		Andhra Pradesh		Andhra Pradesh	AP							
1	ASMITA	1	ASMITA	1	ASMITA									3		3	
2	Balaji Education	2	Balaji Education	2	Balaji Education									3		3	
		3	PRAGATI DEV TRUST											1		1	
				3	SAADHANA MF							1					1
3	SAHARA													1		1	
4	SANGAMAM													1		1	
		4	SKS									1					1
5	SORD	5	SORD											2		2	
		6	ST. ANN'S	4	St. Ann's									2		2	
									TOTAL AP	9	0	2	7				
	Gujarat		Gujarat		Gujarat		Gujarat		Gujarat	Guj							
						1	Aishara Sanstha	1	Aishara Sanstha					2	2		
		1	AMBA	1	AMBA	2	Amba	2	Amba					4	4		
1	ANTHYODAYA MS	2	ANTHYODAYA M S	2	ANTHYODAYA M. S.									3		3	
				3	ASHARA									1		1	
		3	BAL MAH. BACHAT											1		1	
		4	EARTH-Q A VILL.	4	EARTH-Q A VILL.									2		2	
		5	GV SAMARTHAN K	5	GV SAMARTHAN K									2		2	
						3	GVSK	3	GVSK					2	2		
2	MAHITI GROUPS	6	MAHITI GROUPS											2		2	
				6	MM CREDIT COOP									1		1	
				7	NAVJYOT M.									1		1	
3	NAVSARJAN M.	7	NAVSARJAN M.			4	NAVSARJAN M.	4	NAVSARJAN M.					5	5		
						5	PRAYAS	5	PRAYAS					2	2		
		8	SAHAJ SADGURU	8	SAHAJ SADGURU									2		2	
				9	UTTHAN									1		1	
				10	VARDAN TRUST	6	VARDAN Trust	6	VARDAN Trust					3	3		
4	VIKAS	9	VIKAS						TOTAL GUJRAT	17	6	0	11	2		2	
	Karnataka		Karnataka		Karnataka		Karnataka		Karnataka	Kar							
		1	BSS	1	BSS							1		2			2

	Name of Organization 2001 March		Name of Organization 2002 March		Name of Organization 2003 March		Name of Organization 2004 March		Name of Organization 2004 Dec	GPs	Nos current	Moved category	Dropped out	Yrs partn ership	Yrs current GP	Yrs of GP dropp ed	Yrs of move d cat.
		2	Grameen Koota	2	Grameen Koota							1		2			2
1	MAHILA SANGAMS													1		1	
				3	SVVS									1		1	
									TOTAL KARNATA	4	0	2	2				
	Kerala		Kerala		Kerala		Kerala		Kerala	Kerala							
1	DARSHN	1	DARSHN	1	DARSHN									3		3	
2	HIGH RANGE													1		1	
3	KODUMON	2	KODUMON	2	KODUMON									3		3	
4	SRI	3	SRI	3	SRI	1	SRI	1	SRI					5	5		
5	TDFP													1		1	
6	VDS	4	VDS	4	VDS									3		3	
7	VIDC	5	VIDC	5	VIDC									3		3	
									TOTAL KERALA	7	1	0	6				
	Maharashtra		Maharashtra		Maharashtra		Maharashtra		Maharashtra	Mah							
						1	ASMITA ID	1	ASMITA ID					2	2		
						2	DILASA	2	DILASA					2	2		
				1	GMSS Sangh									1		1	
						3	NAVCHETNA	3	NAVCHETNA					2	2		
									TOTAL MAHARA	4	3	0	1				
	Madya Pradesh		Madya Pradesh		Madya Pradesh		Madya Pradesh		Madya Pradesh	MP							
				1	APARAJITA MAHILA MANDAL									1		1	
				2	MA NAVDURGA									1		1	
									TOTAL MP	2	0	0	2				
	Orissa		Orissa		Orissa		Orissa		Orissa	Oris							
						1	Adhikar							1	1		
						2	BISWA							1	1		
						3	FARR							1	1		
									TOTAL ORISSA	3	3	0	0				
	Rajasthan		Rajasthan		Rajasthan		Rajasthan		Rajasthan	Raj							
1	DCNC NETWORK													1		1	
								1	MPVS					1	1		

	Name of Organization 2001 March		Name of Organization 2002 March		Name of Organization 2003 March		Name of Organization 2004 March		Name of Organization 2004 Dec	GPs	Nos current	Moved category	Dropped out	Yrs partnership	Yrs current GP	Yrs of GP dropped	Yrs of moved cat.
						1	SWERA	2	SWERA					2	2		
									TOTAL RAJA	3	2	0	1				
	Tamil Nadu		Tamil Nadu		Tamil Nadu		Tamil Nadu		Tamil Nadu	TN							
1	ABCD													1		1	
				1	AID INDIA									1		1	
2	ARCOD											1		1			1
3	DEV ORG FOR WOMEN	1	DEV ORG FOR WOMEN											2		2	
		2	ECHO											1		1	
4	CDC	3	CDC									1		2			2
		4	CRSA									1		1			1
		5	GUIDE									1		1			1
5	NEW LIFE											1		1			1
6	PSA											1		1			1
7	SHEPERD											1		1			1
8	SHWET		SHWET									1		2			2
				2	BLOSSOM TRUST	1	Blossom Trust	1	Blossom Trust					3	3		
				3	BWDA	2	BWDA	2	BWDA					3	3		
				4	CARD	3	CARD	3	CARD					3	3		
				5	CENTREREDA	4	CENTREREDA	4	CENTREREDA					3	3		
				6	DEEPALAYA									1		1	
				7	DOW									1		1	
				8	GLOW	5	GLOW	5	GLOW					3	3		
9	LEAD	6	LEAD	9	LEAD	6	LEAD	6	LEAD					5	5		
				10	MUNNAM									1		1	
				11	OAZOANE	7	OAZOANE	7	OAZOANE					3	3		
		7	PARKKAVAN TRUST	12	PARKKAVAN TRUST	8	Parkkavan Trust	8	Parkkavan Trust					4	4		
10	PRM-PROJECT	8	PRM-PROJECTS	13	PRM-PROJECTS									3		3	
		9	REACHES	14	REACHES									2		2	
				15	WORD									1		1	
				16	YSSA	9	YSSA	9	YSSA					3	3		
									TOTAL TN	19	9	8	10				
	West Bengal		West Bengal		West Bengal		West Bengal		West Bengal	WB							
								1	HDC					1	1		

Name of Organization 2001 March	Name of Organization 2002 March	Name of Organization 2003 March	Name of Organization 2004 March	Name of Organization 2004 Dec	GPs	Nos current	Moved category	Dropped out	Yrs partnership	Yrs current GP	Yrs of GP dropped	Yrs of moved cat.
				2 KDS					1	1		
				3 Sahara Utsarg					1	1		
			1 VWS	4 VWS					2	2		
				TOTAL WB	4	4	0	0				
				GRAND TOTAL	80	28	12	40	151	70	65	16
						35%	15%	50%	1.89	2.50	1.63	1.33