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Concept on Promotion of Community Based Organization  
(SHG, SHG Federation, Apex Federation)



Guidelines on Rural Financial Services

OTELP Plus | Second Volume - July - 2013



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OTELP

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## TABLE OF CONTENTS

	CONTENT	Page No.
SECTION-I	Overview of Microfinance	3
SECTION-II	Conceptualizations of CBOs (SHG, SHG Federation & Apex Federation)	5
	PART- A Promotion of Primary Institution at village level	6
	PART- B Promotion of Secondary Institution at MWS level (SHG Federation / Cluster)	7
	PART- C Promotion of Apex Federation at Block level (Cooperative / Apex Federation)	8
SECTION-III	Time frame of promoting People Institution	9
SECTION-IV	Management	10
	PART- A Operational Management	10
	PART- B Financial Management	11
	1) Apex Federation	11
	2) SHG Federation	12
	3) Group Level	12
SECTION-V	Management Information System	13
SECTION-VI	Management of Rural Financial Service Fund	14
	PART- A Criteria for seed capital disbursement to SHG	14
	PART- B Designing loan product	15
	PART- C Criteria for Loan Sanction and Disbursement	15
	PART- D Process to be followed for sanction & disbursement of loan to SHG	16
SECTION-VII	Lending Principles to be followed	17
	PART- A SHG Level	17
	1) Norms	
	2) Loan Appraisal	
	3) Members' Eligibility	
	PART- B SHG Federation Level	18
	1) SHG Eligibility criteria to avail linkages	
	2) Loan appraisal process	
SECTION-VIII	Proposed Business Model	19
SECTION-IX	Sustainable Exit Strategy	21





## SECTION -I

### Overview of Microfinance

Poverty is multifaceted and is widely perceived as multi-dimensional complex phenomenon. It remains one of the severest blights of humankind. Poverty varies from one geographic area to other depending on various factors and so is the case for development. The unmet needs of rural communities, low purchasing power and lack of alternative sources of livelihood are among the factors responsible for rural poverty, especially in developing countries. Absence of a poor friendly financial service is understood to be a critical component to it. Though mere access to financial services by poor is tough to claim as a solution to poverty, its role cannot be undermined either, by looking at the fact that microfinance has already reached millions of poor across the world. Professor Muhammad Yunus and Grameen Bank of Bangladesh has strengthened this belief with the pioneering “peer-group joint liability” model, which is believed to be the founding stone of the recent days microfinance. SHG-Bank linkage model is the single largest microfinance approach covering about 30 million poor household in India, which is built primarily around group liability principle.

While efforts from various institutions in the state towards poverty reduction and women's empowerment have not

been lacking, the impact has fallen short of expectations at many places. Despite being one of the most naturally endowed states in terms of natural resources, Orissa has one of the highest incidence of poverty in the country. Scheduled Tribes and Schedule Castes constitute a large portion accounting to 38.25 % the state's population and 22.13 % of tribal population of the country (2001 census). Though women constitute an important segment of the labor force, the unpaid economic activities of women and their contribution in the domestic sector remain unreported and go largely unrecognized. While the self-help movement in Odisha has been a direct consequence of the goal towards empowerment, under the present circumstances, a lot remains to be achieved in terms of overall improvement of women's lot. In spite of its vast outreach, major limitations attached to this approach are very low credit support vis-à-vis the requirements, lacks scope in addressing the diversified growth need of individuals, a large number of left-outs, and mounting loan pressure on women.

Self Help Groups (SHGs) are viewed as voluntary associations; self managed homogeneous groups who usually engaged in weekly savings at village level. Their

savings are used for which for their own use such as consumption or productive purposes. This can be further supplemented by external resources, i.e. bank credit or support from financial institutions. The SHG movement, a structured approach with defined focus on women's empowerment came with the launching of Mission Shakti, W & CD Dept. in 2001. Odisha has 540029 SHGs( status of MF in India, 2011-12) .Out of this majority are defunct. Few groups ,which are still functioning, are either with the support of Government programs and NGOs handholding support. The ideology of SHG formation has diluted over time and the majority of group functioning is limited to the collection of monthly saving through unorganized meetings, no maintenance of books of records and limited to opening a saving accounts. SHG have expressed that, one of the reason that motivates them to form SHG has been entitlement to government subsidy schemes. Such groups have hardly succeed to manage funds and the majority of them dissolve after misusing the amount, **thus the main vision of being together with mutual support, financial intermediation, livelihood and empowerment fails.** SHGs movement is yet to see a remarkable success in terms of promoting self-sustained women institutions successful in improving their livelihoods by having easy access to small credit at an appropriate time. In this scenario: building capacities of SHG and creating Community Based Organisations is highly essential.

SHG strength has proved to be magnificent, involving women in planning and decision-making and helping them to gain increased access and control over the economic resources is ultimately utilized for their family's development. This is the reason behind Government's consistent efforts to strengthen SHG and its federation and implementing development initiatives through them. Women, organising in informal institutions like SHG provides a platform for them to expand their horizons and outlook towards social issues. SHG movement has helped women to overcome social and economic barriers, may it be home or community. One has to understand how participating in peer lending groups develops “social and economic capital” in poor communities to building upon group strengths. To build the SHGs into an efficient and sustainable micro-finance institution, able to function independently and meet the needs of its members, it must foster sustainable financial features such as members' satisfaction and confidence, balance between simplicity, flexibility and manageability, clarity of roles of SHG members and service providers, equality of opportunities for all members and compatibility with the mainstream systems. Further strengths of SHG such as managing risks through peer pressure creating corpus for bank linkages and strong social collateral can back up the emerging financing institute.

ST&SC Development Department of Odisha has taken steps to provide support for tribal empowerment. It believes

that, enhancement of their capacity and capability will enable them to take up various livelihood activities in a sustainable manner. It launched the “Orissa Tribal Empowerment and Livelihoods Programme” on 2nd October 2004, operating in 30 blocks in seven districts of Odisha. The emphasis has been building capacities and capabilities of Implementers and stake holders for effective implementation of project components, building institutions and nurturing them to take charge of themselves and majorly focusing on improving the livelihood of house hold through improved agriculture, land and water management initiatives. **Rural Financial Service** has been a critical and valuable input to the household. The Organisation perceives that providing access to financial resources by women can play a major role in development . This guideline on RFS is an effort to strengthen such group liability based SHG approach of micro-finance and establishes sustainable CBO so that they can manage their own funds and also be capable enough to access banking services and overcome limitations for the overall effectiveness of micro-financial services. The first part of the guidelines deals with conceptualization of CBO, different levels of pyramid, their structure, operational and financial management, staffing pattern and governing body selection. The second part deals with RFS scope and management, lending principles. A business model and sustainable exist strategy will help to give the final shape.

**“The Aim behind promoting CBOs (SHGs, SHG Federation and Apex Federation) is to provide financial access and, services to the poor women through self managed institutional frame work .This will ensure better quality of life to women, enhanced self-image, enhanced status for female members at the family and social level . It visions for empowerment. There is no perfect solution to a cause. One has to design and consistently work with new strategies to overcome the day-to-day challenges and aim towards sustainability and quality of the institutions”.**



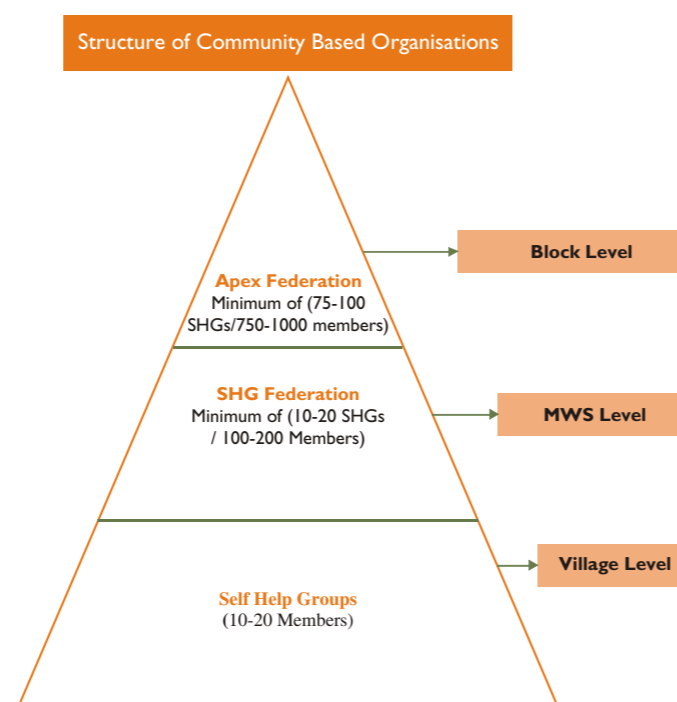


## SECTION - II

### Introduction:

#### Conceptualisation of CBOs (SHGs, SHG Federation & Apex Federation)

The structure of the CBO (SHGs, and SHG Federation & Apex Federation) is like pyramid with bottom to top approach. The SHG is the primary institutions, and the rest are the secondary institutions. The bottom that implies to the SHG, holds the maximum responsibility and functions. It is the foundation of the structure with sole responsible for savings and credit. Gradually moving towards the top leads to an increase in responsibility of monitoring, evaluation and coordination with external institutions for better operation and functioning. The process is facilitated by these institutions. The relevance of the structure is better understood with the role and responsibility at each level and the total members constituting each level to maintain the institute. The three types of institutions such as SHG, SHG Federation and Apex Federation will be located at village, MWS level and block level respectively. A pictorial representation of the visualized structure below is for ready reference and guide for the rest of this document.



### PART- A:

#### Promotion of primary institutions at village level “Self Help Group”

The process has to begin with mapping of the existing families under SHGs fold and left outs, analysis on the history of the old defunct group, bringing de-railed groups to the mainstream on a village wise approach. Adhering to NABARD guideline, the left out families situated in close proximity, same hamlet, and homogeneous in terms of economic status, can be organized as fresh SHGs. There is a need to start with detailed information gathering and analysis of group's current status and develop strategies accordingly. As group dynamics vary from one group to other, detailed analysis on the history of the old defunct group should be done to understand their savings status and credit outstanding. Members from old SHG with no financial backlog can form fresh SHG, .SHG with old financial back log have to be streamlined first for the above processes. Efforts can be made to bring women representing all household to be a part of SHG .SHG promoted by FNGO or any other agency within the operational areas of OTELP can come under OTELP fold. Groups functioning should be focused and streamlined by having regular meetings .Meetings should bring forth social and financial issues and not limit to saving collection. The first and foremost responsibility of the SHG is thrift collection and fulfilling small financial needs of the members through effective internal lending. SHG can be facilitated for linkage either from the bank or RFS if there is a need or in situations when SHG could not fulfil the financial requirements of the members. Peer pressure in the group is the mantra for better repayment of loan, functioning, management and brings solidarity among all members.

#### Groups can be promoted or nurtured with the following objectives:

- Self help and mutual trust among all members
- Mobilising small amount of monthly thrift & fulfil their small financial
- Providing space for leading a team
- To avail loan from the bank to met out their requirements
- To have a feeling of “Own money” concept
- It acts as an instrument for the poor

This is not just the end rather the beginning to have a linkage for livelihood initiative. The group needs to develop capabilities at the group and individual level. Household level livelihood planning with Individual members

should be complemented by the group's assistance for developing concrete plans incorporating everybody's livelihood needs. The promoter/ CSP and social experts have a significant role to play. S/he has to develop processes for carrying out strong internal credit appraisal. He has to enforce repayment discipline, help the group develop a livelihood vision and create collective excitement and motivation. It needs a deep understanding of livelihood strategies of individual members and formulates coping strategies. For risk management, identification of avenues where collectivisation can benefit individual plans, constantly re-visiting and revising strategies and planning need to be on an ongoing process. Money is a serious matter. Unless groups, first, develop clear norms for managing their group activities it is likely to experience misunderstandings, lack of trust, unfair practices and corruption. Norms refer to meeting processes, savings and lending procedures, account keeping and follow up in a transparent manner.

Governing Body at SHG Level: 2 leaders will be either selected or elected from SHG and nominated for 2/3 years as per SHG norms.

#### Eligibility criteria of SHGs to be a part of SHG Federation

- a) Good performing SHG –performance will be assess by the SHG Federation
- b) It may joined with nearby SHG Federation
- c) The SHG must be functioning at least six months
- d) Depositing entrance fee as mentioned above
- e) Agree to follow the norms set by the SHG Federation



## PART -B:

### Promotion of cluster level organisation at MWS level “SHG Federation”

There is a need to provide a continuous support to the group on regarding issues that they might not be sure how to deal with. The best set of people to give them a second opinion in this regard are obviously the members of other groups, who may already have undergone a similar experience. Therefore it is essential to create a forum, where all the groups are able to meet at regular intervals to provide each other support as required. This emphasizes the need of cluster level organization / SHG Federation. The SHG Federations is formed at the micro-watershed level (MWS). 10-20 SHGs approximately under different villages of a MWS can be federated. Looking at geographical situation such as being in the service area of the same bank branch or served by the same village *haat* make its easy for operation. The federation is not necessarily confined within a VDC boundary; rather, it's planned to be operated in MWS level in a GP. Its important that a group is stabilized and mature enough before it becomes a member of another forum. Preferably a group with six months of age should be invited to attend cluster meeting.

The objectives of the SHG Federation will be:

- Providing facilitating services to all SHGs that comes under federation
- Providing limited and quick financial assistance to the SHG with proper process
- Recommending for linking with external agencies or RFS
- Cross learning and cross sharing to get exposed to new challenges
- Best platform for SHG Gradation and conflict Resolution

A matured cluster will provide the women a feeling of being part of a larger whole, a collective of SHGs. This will boost their confidence, creates a platform to face and deal with the world and broadens their horizon local issues. SHG Federation at MWS level is a forum for interface, forum for solidarity, creating structure, design and bond among SHGs. The federation altogether requires a different set of inputs and assistance to operate much different purpose as compared to the SHGs, or a group of SHGs just coming together. The federation will try to deliver maximum services i.e. ensuring regular monthly meeting, record updating, regular savings and repayments and federation also ensure the proper end use of the loan amount.

In order to stabilized cluster formation and make it a meaningful platform, one has to look at parameters such as frequency of meeting, agenda of meeting, norms (systems of meeting, procedures, timings, and rules to control aberrant behavior, membership fees, etc.) for systematic functioning of the forum with structured interaction. Members should take charge of the meeting to express, build rapport with each other, share issues, solve problems together in small groups and improve themselves to be better institutes. Promoter should gradually disengage once the group learns to functions independently. The role of the cluster has to be strongly brought forward as a monitoring and evaluation cell taken through participatory approach. This will evaluate the group's performance over time and set targets to achieve. Supervising the progress (socially and financial) of each group, checking disciplining deviant behavior; imparting on-going assistance in resolving issues and providing support in any kind of need should be the broad functions.

Governing Body of SHG Federation:

- 2 leaders from each SHG will represent general body of SHG Federation and attend monthly federation meeting at MWS level.
- 2 leaders will be either selected/elected from this 20-40 leaders of general body of SHG Federation for 2/3 years as per SHG Federation norms

### Eligibility criteria for non OTELP SHGs to access services from Apex Federation

- Agree to pay service charge
- Up to one year they can not avail loan from RFS fund
- CSP will provide the necessary support on regular basis



## PART-C:

### Promotion of block level federation “Cooperative or Apex Federation”

Approximately 70-100 SHGs in a particular block, irrespective of the organization behind its promotion can come under OTELP promoted Apex Federation. Efforts may be taken to bring all members in a SHG into this Apex Federation fold. At the block level the Apex Federation will be registered under either of the legal act i.e. Society registration Act 1860, Indian Trust Act 1882, Cooperative Society registration Act 1962. Promoting and legalising the institution would let the organisations function on its own without the support of external agency. Even after the exit of the programme and external person (CSP/ social experts) this legal institution will manage its fund and programme locally. Apex Federation at the block level helps in catering different types of services and activities to different institutions that come under its geographical periphery. SHGs promoted in non-OTELP areas under the same GP may be included in SHG Federation

The objectives behind promoting Apex Federation are:

- Legal identity
- Ensuring social deliverables
- Apex level collaboration
- Providing services in terms of facilitating, controlling and monitoring
- Collective marketing
- Facilitating for financial linkages in terms of loan & insurance
- Taking ownership
- Peer pressure
- Programme will sustain for long

The Apex Federation will provide two types of support to its members or SHGs. First is business activity and marketing. Group of people having the same kind of livelihood may come under one business. Accordingly the Apex Federation needs to decide how many types of business activities to be introduced. Secondly, extending technical expertise to individual members as well as SHGs as a whole i.e. for SHG conducting meetings, updating records, facilitating for loan linkage along with other linkages. Apex Federation can earn income from its business and marketing activities. A certain amount of service tax may be levied on the SHG or Individual members who are availing services from Apex Federation.

Governing Body of Apex Federation: 2 leaders from each SHG Federation will be representative of the general body of Apex Federation. On an average, 20 leaders will be a representative general body of Apex Federation. Among them, 7-11 leaders are elected as Board of Directors (BODs) of Apex Federation and among 7-11 BODs, 2 will be elected as office bearer (executive body/ Signatory).

### Staffing pattern of Apex Institution:

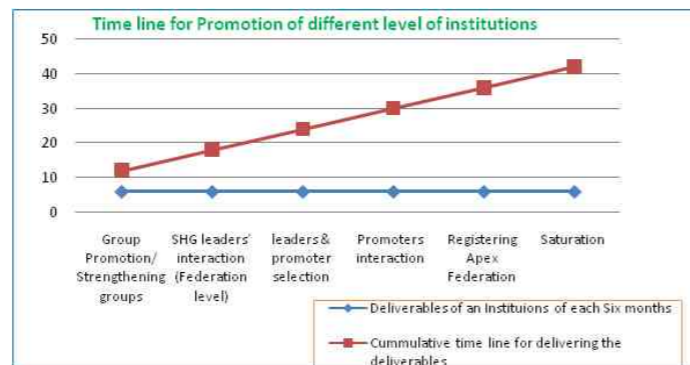
1 Block Integrator (social expert) at block level and 10 CSPs (1 CSP for each SHG Federation at MWS level) appointed by OTELP office will be monitored by the leaders of the Apex Federation at block level. All cadres of institutions need to be promoted as per the institutional promotional plan. Financial implication may be supported by OTELP for managing the unit for seven years. But the concerned FNGO need to work out on sustainability of Apex Federation from the beginning i.e. chalk out sustainable plan of Apex Federation while preparing VDLP.



## SECTION - III

### Time frame for Promoting Different Cadre of People's Institutions

The time frame of promoting different cadre of people institutions (SHG, SHG Federation & Apex Federation) is given below. As per the process guideline social mobilisation and promotion of different community level institutions need to be promoted within the confined time period. In a span of one year, SHG Federation need to be formed. After completion of two and half years, Apex Federation needs to be registered so that programme will have ample time to strengthen and nurture it properly.



Time line for Promotion & registration of CBOs						
Activity	Group Promotion/ Strengthening groups	SHG leaders' interaction (Federation level)	Leaders & promoter selection	Promoters interaction	Registering Apex Federation	Saturation
Time line in Months	6	6	6	6	6	6
Cumulative time line in months	6	12	18	24	30	36

## SECTION - IV

### Management and Staffing Pattern

The management unit is formulated to facilitate and monitor, day today activity of the Apex Federation, facilitate the performance as well as deal with the issues of the SHG Federation at the MWS level federations and SHG at village level. The unit manage on around 75-100 active SHGs Federated under the block.

The management team will consist of 1 block integrator who is basically the social expert from OTELP project, the board members, the elected representative of the board and total of 10 CSP provided under OTELP. The block integrator will supervise over all work of the Apex Federation. The team of 10 CSP will look at the functioning of 10 MWSs in one block (1 CSP per MWS). The size will vary depending on the MWS under a block. Every month, performance review of CSP can be assessed at block level, where Block Integrator and board members will take active part in this process for necessary payment of the concerned CSP. This process helps in, enhancing managerial capacity of the board members and creates a feeling of responsibility and ownership, which is very much required for, sustainable of the institutions.

### PART-A

#### Operational Management

To operate the SHG apex institutions, operational of the management unit plays key role in making an institution sustainable. Persons involved in operational management of people institutions are leaders in SHG, SHG Federation & Apex Federation, management unit i.e. CSP & social expert along with board members. Proper facilitation and capacity building of the leaders help them in taking care of their institutions.

- The management units need to prepare vision documents for a span of seven years and each year it has to be revisited and modify as per the current requirement
- Annual plan (savings, credit, institutions promotion, training etc) can be prepared at all level of pyramid and further consolidated for guidance of a management unit.
- The management unit needs to prepare a report based on total loan proposals received, loan disbursed, and repayment status / loan outstanding on a monthly basis and analyze to figure out fund shortage as well as unused funds.

- d) Monthly review meeting can be organized at Apex Federation level to declare the closing balance and fund flow status. This can be facilitated by social expert to build the capacity of the leaders as well as different institutions.
- e) New themes or concept or refresher course of capacity building of leaders or any activities can be introduced in the meeting agenda for approval of the house.
- f) Monthly review of CSP performance will be done by the executive body of Apex Federation Performance depends in the quality and efficiency in delivering the deliverables of CSPs. Suggestions and opinion is highly recommended by leaders from each federation.
- g) Every month SHG, SHG Federation and Apex Federation meeting need to be conducted in a particular date where all issues & concerns can be shared along with best practices, which will be learning for others.
- h) Utmost care can be taken for strengthening their capacity in terms of owning & managing institutions, mutual trust & belief, maintaining books of account, financial management, vision building, planning to attend goal, taking review of CSP, mainstreaming collaboration etc.

## PART-B Financial Management

Financial management at each level of institution plays very critical role in regards to financial sustainability of an institution. The institution can deliver the services even after withdrawal of support of funding agencies, provided if it attains **financial self-sufficiency**. It implies that, the institute should be capable enough to generate funds for meeting its management expenses. It is noteworthy to mention that, Apex Federation will provide the following deliverables with certain financial gain as follows:

**Business Activities: Apex Federation** will take a share of the profit generated out of the business activity initiated in a collective manner. The Apex Federation will strengthen the forward linkage and facilitate the backward linkage for any business activity. It will also provide marketing support and logistic arrangement to the members involved under different activities. For example: Apex Federation may initiate activities like NTFP collection and value addition, initiate livelihoods activities such as poultry, goatery, fishery etc.

**Extends Service to different institutions/individuals:** The Apex Federation will develop a detailed analysis of the livelihood activities that need to be initiated through the SHG and Federation level. The detailed deliverables with respect of the activities need to plan and regular services through CSP will be provided to SHGs and SHG Federations has to be provided in a consistent manner. The Apex



Federation or SHG Federation may seek service charge from the group but not from the members as per the sustainable plan of Apex Federation. The service charge is to be levied @10% on income of a SHG or will be decided at Apex Federation meeting.

### Financial Responsibility of Apex Federation

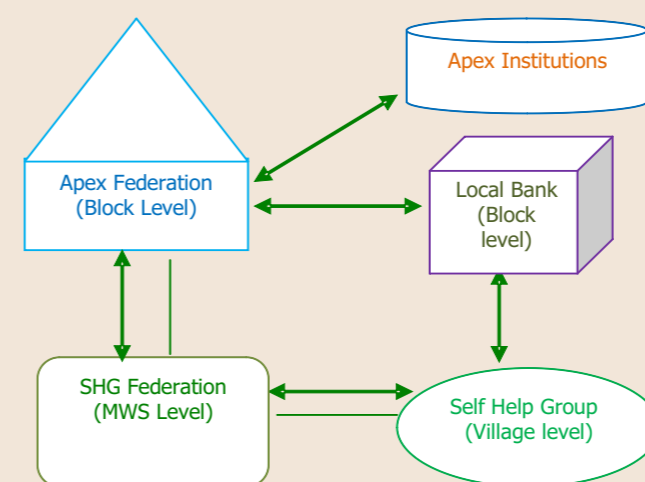
- Collaboration with banks, Government organisations and other financial institutions for financial inclusion.
- Loan availed by Apex Federation from other sources will be lent to SHG and SHG Federation@ 18% interest / annum.
- Apex Federation will not hold the RFS receives from OTELP. The entire amount will be given to SHG Federation to be further revolved among the SHGs.
- All SHG under each SHG Federation need to pay entrance/ membership fee of Rs.50 and subsequently annual subscription fee of Rs. 50 to receive facilities under Apex Federation.
- SHGs / Individual members can also purchase equity share for demanding ownership at Apex Federation level as the case may be. In case of SHG Rs. 500 and individual members Rs. 50 will be collected as one time deposit and refundable only when members leave, die or want to surrender
- SHG Federation and Apex Federation need to forecast the amount to be demanded by the groups and rest of the money can be used for better investment.

### Financial responsibility of SHG Federation

- SHG will pay an entry/membership fees Rs.50 to join the federation and subsequently subscription fees annually.
- OTELP will place the RFS fund meant for MWS at the SHG Federation which will be revolved@ 18% interest per annum between SHG.
- SHG has makes loan request with proper procedures. After proper assessment by the Federation Appraisal team, loan will be disbursed from Federation to SHGs

### Financial responsibility of the SHG

- Members need to pay entrance fees of Rs. 5/- when joined in SHG and subsequently renewal fee or subscription fee annually so that people will feel their ownership.
- Regular monthly Savings & credit should be the mandatory thrift. The monthly pooled amount of savings need to be inter-lend@ 18% /annum among the member with optimum rotations to meet the primary requirements of the member by fulfilling all required procedures.
- Group has to deposit the excess amount left after inter-lending in the savings bank of their area to avoid misappropriation of fund can be avoided.
- Any deviation from the group norms/byelaws need to be compensated by penalty.
- SHG can avail loan directly from the bank provided fulfilling all banking requirements with due approval of SHG Federation.



### Financial and governance structure of people Institution



### Deliverable by the promoting agency (FNGO)

- Eligible families need to be brought under the institutional arrangements within the first three years of programme implementation and strengthening of apex institution.
- There should be a detailed exit plan and role of outlined for handling the management cost by Apex Federation.
- Plans of for handholding support (invisible support) for strengthening the institutions to be sustainable



## SECTION - V

### Management Information System

On part of a project, MIS plays key role in collection of data, consolidation and generating report, which helps block integrator to take appropriate decision in time. All these staffs of management unit will provide data and seek report for day-to-day management. The concerned CSP needs to conduct SHG meeting with the help of Demand sheet generated by software. This need to be filled up by CSP in the SHG meeting and the same should be submitted at Apex Federation office for putting the data in software. The report generated by the software to be shared with the concerned SHG in next meeting. One copy of the same report will be kept at SHG level and only demand sheet will be taken back by CSP.

MIS will be maintained at the Apex Federation level. The social expert or a MIS can be allotted to maintain the MIS and enter the data in a regular basis for generating report, which helps block integrator to take appropriate decision in time. The data will be collected from the SHG at the village level and will be compiled at the Apex Federation level. The CSP will initiate the process with collection of data during the SHG meeting as per the demand sheet format. A copy

of the same will be retained at SHG level with immediately submission and compilation at the Apex Federation level. Subsequently reports will be generated village wise, SHG Federation wise to be disseminated to the respective levels and discussed during the meeting at each level.

A detailed guideline on operational aspects of SHG Software is prepared. The highlights of the guidelines are given below:

#### Entry Part in Software

1. Block wise user ID and password is created and assigned.
2. Base line data (Member, SHG, Village, Panchayat, SHG Federation, Block etc)
3. Opening Cash & Bank details,
4. Opening Loan details (Member, SHG, SHG Federation, Bank etc.)
5. Fresh loan & Transaction details as per demand sheet
6. Minutes book can be introduces at SHG level for recording the discussion of the group

#### Report Part of the Software

##### A. The Demand Sheet:

This report reflects the savings and instalments with dates, each member is supposed to give in a SHG meeting. The transactions need to take place as per the demand sheet. This sheet will be return back to office for further data entry.

##### B. Receipt & Payment Report:

This is otherwise termed as Cash Book of a SHG. This report is generated after entry of all transaction recorded in the demand sheet of a particular meeting. This is supposed to be kept at SHG level for their record. The necessary file may be opened at SHG level, in place of Cashbook for future reference.

##### C. Balance Sheet:

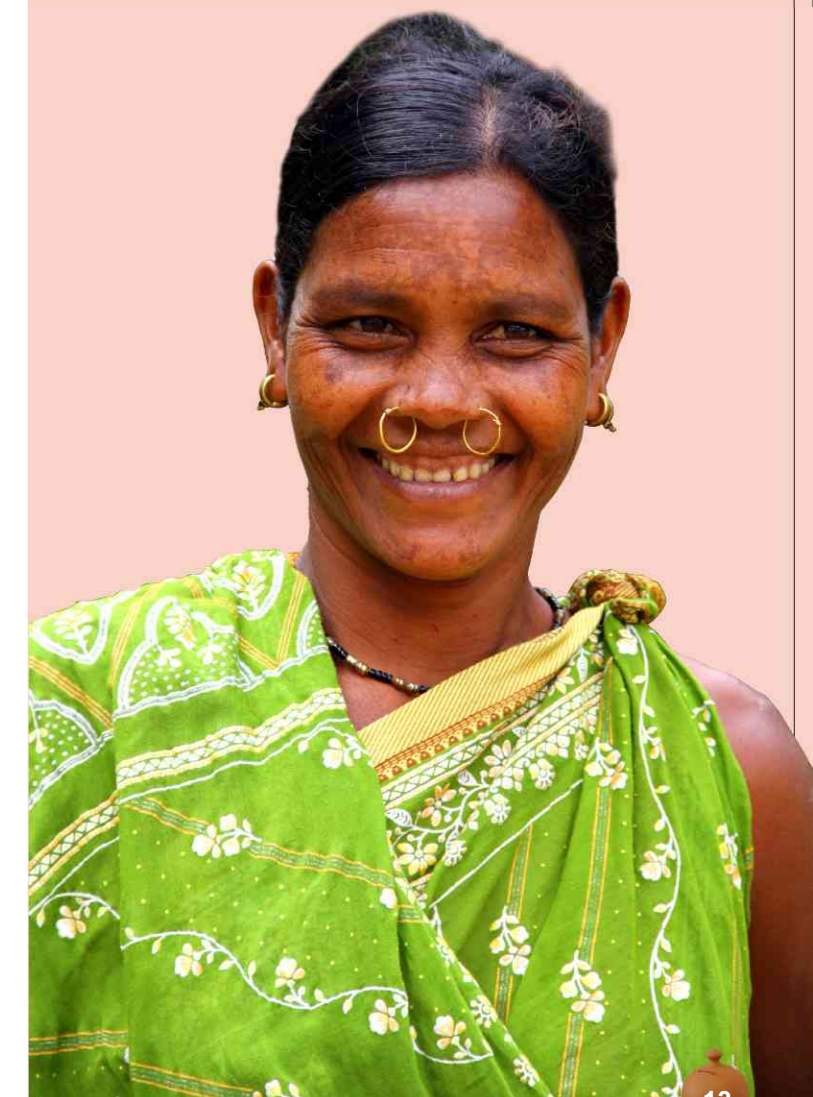
This report reflects about the assets and liabilities of SHG. For example members' savings, corpus generated out of loan rotation, loan from others etc. shall come under liabilities of SHG. Loan to members, cash at bank, cash in hand and investment on IGA etc shall be treated as assets of SHG.

##### D. Members Confirmation:

Member's savings and updated loan outstanding is reflected. This report may be kept at SHG level for their reference.

##### E. Other Reports:

Bankbook, loan book, members' transaction details are also available for SHG.







## SECTION - VI

### Provision of Funds under Rural Financial Service and its Management

Financial support to the families is provided through the programme component RFS. This fund is meant to facilitate in fulfilling financial regarding livelihood activities, domestic/ consumption purpose and initiation of business activities by members of SHG, SHG Federation and Apex Federation level. The RFS fund is calculated on the basis of treatable area of MWSs and the same amount will be kept and managed by SHG Federation promoted at MWS level. Approximately 10-20 SHGs (200 women/ HH) will be benefited from this RFS fund. SHG Federation will request for additional RFS to the Apex Federation through a written request and subjected to the submission of a viable credit plan of SHG. In order to meet the demand of SHG, Apex Federation reserves the right of taking back the unutilized RFS fund available with SHG Federation and meets the needs of the other desired federations.

#### Revolving fund: The amount to be given to SHG and revolved among them

**Allotment:** Rs.2.25lakh/MWS {(Rs.450/Ha.)\*(500 Ha /MWS)}

A total of Rs. 22.50 lakh for 10 MWS /10 SHG Federations at block level

#### Seed Capital

**Allotment:** Rs. 50,000 {Rs. 100/Ha \* 500Ha/MWS}

A total of Rs.5, 00,000 for 10 MWS /10 SHG Federations at block level

**Start-up kits:** This amount is a support fund provided to the SHG in order to raise the corpus.

**Allotment:** Rs 7,500 {Rs.15/Ha \* 500Ha/ MWS}

A total of Rs 75, 000 for 10MWS /10 SHG Federations at block level.

#### PART-A

##### Criteria for Seed Capital Disbursement to SHG

1. Satisfactory SHG Status (Functionality, conduction of meeting, monthly transaction etc.)
2. Regular SHGs participation in SHG Federation monthly meeting.
3. Good performing SHG as per OLM SHG gradation criteria, grade-II SHGs are eligible for seed capital.
4. Revolving support will be given to SHG need for extra fund to facilitate their business activity or livelihoods related to agriculture.

A performance review committee will be formulated comprising of few leaders (2-3) from the federation. This committee will visit all SHGs in the federation and assess their performance for seed capital disbursement. It will also facilitate gradation as per OLM SHG gradation at MWS level with the presence of VDC members and support with revolving fund to Grade-II SHGs. The team will also provide necessary assistance to the poor

performing SHG and Grade-I SHG to be capable to avail seed capital and revolving fund support. Leaders of SHGs participating in federation meeting will ventilate the proceeding of the meeting to their other members in the respective SHG meeting.

#### PART-B

##### Designing Loan Product for SHG

The SHG Federation can design and provide two types of loan product such as;

1. Regular loan
  - a. Consumption Loan (Festivals, social gathering, marriage, education, housing, debt redemption etc.)
  - b. Production Loan-Long term Loan (Business, agriculture, livestock dev. Etc.)
2. Emergency loan (Medical, fire accident, Natural calamities, death etc.)

#### PART-C

##### Criteria for Loan Sanction & Disbursement to SHG

- 1) A member can avail any type of loan, which depends on her amount of saving with the SHG. In case of a SHG availing loan from a federation, the pooled amount of corpus of the SHG will be considered while sanctioning loan. The corpus & credit ratio will be 1:2 for 1<sup>st</sup> loan, 1:3 for 2<sup>nd</sup> Loan and 1:4 for 3<sup>rd</sup> Loan and will continue with accordingly
- 2) Each loan will follow appraisal process and certain relaxation will be given for emergency loan cases. In case of emergency loan, SHG can call an emergency meeting to avail loan from SHG Federation. In the same way the SHG Federation may call emergency meeting and sanction the amount as per provision with the presence of 2/3<sup>rd</sup> members.
  - i. In case of emergency, appraisal process may be suspended but the SHG need to request for financial assistance on behalf of the victim because ultimately SHG will be held responsible for repayment
  - ii. The interest rate may be relaxed up to zero
  - iii. Apex federation may facilitate for providing assistance in terms of kinds or money mobilising from members or SHG as a whole
  - iv. Emergency loan may be mobilised from external agency like Block office or grant from Government organisations or financial institutions.
- 3) Only SHG can avail loan from federation, individual seeking loan from federation needs to be discouraged.
  - i. Loan need not to be distributed equally among all members in a group rather it can be disbursed as per capacity and capability of a member.
  - ii. It helps in enhancing active loan portfolio and reduces defaulter
  - iii. Apex federation has right to take money back from the SHG Federation if any SHG Federation could not disburse / utilised its revolving fund
  - iv. The same may be returned with a proper requirements of the SHG Federation

- 4) SHG needs to provide certain collateral in terms of *patta* i.e. land right, bank pass book, ration card etc. to SHG Federation to avail loan. The respective SHGs and its Federation can decide the criteria. Ex: 1 acre of *Patta*: Rs. 10000/-
- 5) Single loan concept can be developed in SHG Federation, so as to ensure repayment. It means until the first loan is fully repaid, the second loan will not be given to the same individual or SHG as the case may be. But in case of emergency, second loan can be thought of.
- 6) One SHG will be the guarantor for another SHG while taking regular loan in the same SHG Federation. Until the SHG repays the full amount of loan the guarantor SHG cannot avail loan. But in case of emergency SHG guarantor is not required but other formality need to be fulfilled.

#### PART-D

##### Process to be followed for Sanction & Disbursement of loan to SHG

1. SHG needs to prepare activity plan (MIP) in case of regular loan and submit it to Federation
2. The SHG need to give application form to the federation for availing loan either from RFS fund or other Financial Institute.
3. The core committee (2-3 Leaders) within the federation is to be formed and facilitate the process of loan appraisal, sanction, disbursement & recovery and submit to the federation for further decision.
4. The concerned appraisal committee will visit the SHG verify the records; assess the requirements and the purposes of loan demand and its possibility followed by linkages.
5. The committee reserve the right to disqualify the loan proposal if they do not feel its suitability or non-performing SHG
6. The core committee members & governing body of SHG Federation take a decision on sanctioning loan to particular SHG based on the documents submitted by SHG and assessment report by the concern committee.
7. If any SHG requires more than the ceiling amount from SHG Federation. The Apex Federation Core committee (2-3 Leaders) will visit the SHG along with core committee members of SHG Federation for field verification for sanctioning necessary loan.
8. Members of the SHG Federation and Apex Federation need to prepare lending principle upon which the loan will be sanctioned and disbursed
  - a. Regular monthly savings,
  - b. Savings utilization,
  - c. Members' attendance,
  - d. Maintenance of SHG records,
  - e. Adhering group norms,
  - f. Repayment performance etc.
9. Federation to ensure the loan taken by the group is actually utilized for the activity for which loan is disbursed. Similarly SHG to ensure the same while loan taken by the individual members.



## SECTION - VII

### Lending Principles

Access to formal financial services in tribal domain is at stake. Addressing this issue along with developing a proper system to ensure better repayment and the best utilization of financial services is need of the hour. The management unit of the nested institutions i.e. SHG, SHG Federation (Cluster) & Apex Federation need to practice certain lending principles at different level for providing better financial services to all poor families with a sustainable manner.

#### PART-A

##### Lending principles at SHG level

Norms to be followed for loan  
(Followed at group level for internal and external loan)

- Only group members are eligible to avail loan
- Members should state the purpose and the repayment period clearly while requesting for loan.
- The loan request, sanctioning and the repayment should happen in the group meeting only
- The maximum loan limit availed per member depends upon her savings and savings of the guarantor i.e. if a member wants to avail loan of Rs. 5000, the pulled

amount of savings (herself & guarantor) must be equal amount of loan request.

- Until the concerned member repays the full amount of loan the guarantor as well as same person cannot avail another loan again.
- The member absorption capacity and credit worthiness should be accessed by providing smaller loans initially and then move to larger loan (no member should be provided larger loan without accessing their repayment capacity)
- Most needy member with credit worthiness should be preferred while sanctioning loan
- Member should be provided 1:2, 1:3 & 1:4 ratio (Savings: loan ratio)
- Each member's loan application should be processed in the group meeting. The members of the group should accept the loan processed
- Member should pay the loan amount and the interest due fully as per installment.
- Preferably the loan amount disbursement should be done during regular group meeting only. It should not be done in any other time.

Loan amount (per member)	Appraiser	Appraising facilitated by
Upto Rs. 10000	Group leaders	CSP
Upto Rs. 15000	Federation leaders	CSP
Upto Rs. 20000	Apex Federation leaders	Block Integrator
>Rs. 20000	Apex Federation leaders	Block Integrator

- The loan request should be given at least one-month prior and it should be copied in the minute's book and signed by all the members. The loan sanctioned and the details should also appear in the group meeting minutes.

#### 1) Loan appraisal:

The critical loan appraisal process followed with linkage stops more extend defaulter. The more the loan amount, the more the risk of delinquency. The higher the following responsible representatives should do the loan amount, appraisal or assessment. Involvement of leaders in loan appraisal process strengthen their participations and carry ownership and gives a space of owning institutions which is very important for managing a peoples institution.

#### 1) Member eligibility:

- The person taking loan should be the member of the group
- The member should have >80% attendance and good regular savings record (90%)
- The member eligibility should be based on the savings, repayment capacity and the credit worthiness
- The maximum loan limit availed per member depends upon her savings and savings of the guarantor i.e. if a member wants to avail loan of Rs. 5000, the pulled amount of savings (herself & guarantor) must be equal to the amount of loan request
- Loan should be provided according to the need and the absorption capacity of the member
- The interest rate should be fixed for the loan, which can be 24% p.a.
- For providing second loan, the first loan's repayment status should be accessed. If the repayment is poor, the second loan should not be provided.

#### PART-B

##### Lending principles at SHG Federation Level

#### 1) Loan Appraisal:

- A SHG, Fulfilling above eligibility criteria can apply for external linkage (Bank, RFS or Fis)
- The concerned SHGs should give request with resolution duly signed by all members along with list of activities (member wise) for which loan is required.
- As per the above mentioned loan ceiling limit, appraisal team need to visit the SHG
- SHG need to provide certain collateral in terms of Xerox patta, bank pass book, ration card, BPL card.
- The credit will be linked with the pulled amount of corpus available with SHG i.e. 1:2, 1:3 & 1:4
- SHG is responsible for any loss or defaulter of loan

#### 2) Eligibility criteria for SHG to avail linkages (Bank, RFS & Financial Institutions)

- SHG should be a member of SHG Federation
- Attending regular monthly SHG Federation meeting (80%)
- Conducting regular SHG meeting (80%)
- Ensuring good attendance at SHG meeting (80%)
- Collection of regular monthly savings (95%)
- Strong internal lending (90% savings utilization)
- The internal loan should be availed by 60% of members
- Good track record of members level repayments of internal loan (90%)
- Maintaining and updating books of account properly
- Adhering norm



## SECTION - VIII

### Proposed Business Model

A self sufficient Apex Federation can revolve the RFS in an effective manner to sustain the institution An indicative business model is prepared showing different sources of finance come to Apex Federation and different expenditure made with a sustainable manner.

Monthly Expenditure				Yearly Expenditure in Rs.
I no	A/C Head	Particulars	Amount in Rs	Year I
1	Administration Expenditure	Office Rent	2000	24000
		Stationary	300	3600
		Xerox	300	3600
		Office maintenance	200	2400
		Phone	500	6000
2	Capacity building training	CM	500	6000
		Community	500	6000
		Staffs	500	6000
3	Allowance	Block Integrator (1)	10000	120000
		CM (5)	15000	180000
4	Total		29800	357600

Fund Flow Management and Income of an Institution for five years							
Sl no	Particulars	FY 1	FY 2	FY 3	FY 4	FY 5	Assumption
1	No of SHG	75	75	75	75	75	All are active SHGs
2	Total no of members	750	750	750	750	750	Avg. member size 10
3	Savings per month in Rs.	360000	360000	360000	360000	360000	Active memb.750 *Rs.40( member/month)*12 months
4	Cumulative savings in Rs.	360000	720000	1080000	1440000	1800000	
5	Grant to SHGs (Rs.15000/SHG)	1125000	1125000	1125000	1125000	1125000	Rs.15000/SHG grant from RFS fund
6	Cumulative total of SHG Own Fund in Rs.	1485000	1845000	2205000	2565000	2925000	Total of cumulative savings + grant to SHG Rs.15000
7	Total Utilizations of SHG Own Fund in Rs.	1188000	1476000	1764000	2052000	2340000	It is assumed that at least 80% of total of cumulative of SHG Own fund (savings + grant to SHG) should be utilized
8	External Fund mobilization (Bank, FIs) in Rs	1425600	1771200	2116800	2462400	2808000	It is assumed that at least Fund mobilization ratio from external sources should be in 1:1.2 ratio of the total utilization of SHG own fund
9	Grand total of SHG fund utilization (Own fund + External fund) in Rs.	2613600	3247200	3880800	4514400	5148000	Total utilization of SHG own fund + External fund mobilization
10	Gross Interest Income earned by SHGs from (Own fund + External fund) in Rs.	470448	584496	698544	812592	926640	Interest rate 18%/annum
11	Interest to be paid on External fund mobilization	185328	230256	275184	320112	365040	Interest on external fund mobilization @ rate 13%
12	Net interest income earned by SHGs in Rs.	285120	354240	423360	492480	561600	Gross interest income earned by SHGs (Own fund + External fund) - Interest paid to external funding agency
13	RF with SHG Federation after disbursement of grant Rs.15000/SHG	1625000	1625000	1625000	1625000	1625000	Total RFS fund @ 550/ha*5000ha-Rs.15000/SHG as a grant
14	Interest income earned by SHG Fed. from RF in Rs.	292500	292500	292500	292500	292500	Interest @ 18%/annum
15	Cumulative Interest income earned by SHG Fed. from RF	292500	585000	877500	1170000	1462500	
16	Service Charge Collection from SHG (service as delegated to CSP) in Rs.	28512	35424	42336	49248	56160	It is assumed that at least 10% of net income earned by SHGs should be used as cost to institution as service charge
17	Cumulative Service Charge Collection from SHG (service as delegated to CSP) in Rs.	28512	63936	106272	155520	211680	
18	Income earned by Apex Federation /SHG Federation from Business Activity in Rs.						If Apex Federation / SHG fed. involved in business activity
19	Total Income of Apex Federation in Rs.	321012	648936	983772	1325520	1674180	Interest earned by Fed. + Service Charge collection + income from Business activities)



## SECTION - VIII

### Sustainable Exit Strategy

1. It is assumed that 5 CSPs along with 1 Block Integrator (social expert) shall manage to provide services to 75 active groups approximately. But as per programme provision 1 CSP to be engaged for 1 SHG Federation i.e. 10 CSP for 10 MWS, up to the programme period.
2. End of the programme period, staff reshuffling is required. 5 best CSP can be retained with proper process. One CSP can easily cover on an average of 200 families or 20 SHGs approx. in 2 SHG Federations. The projected expense to be incurred during the operation is Rs. 357600 for a period of one year and income earned by the Apex Federation is only Rs. 321012 excluding income earned by Apex Federation from its business. But subsequently the Apex Federation earns profit.
3. Service charge collection is not an easy task but needs good motivation and social mobilisation by promoting agency (FNGO). Block Integrator (Social expert) should orient leaders of the SHG Federation along with CSPs on service charge collection. They should be trained on importance of institutions, its functioning, services delivered, cost incurred during the operation of programme and sustainability of the institutions.
4. CSP and Social Expert need to facilitate federation leaders to percolate service charge in SHG meeting at village level. The process of concept seeding of service charge collection should be initiated from the beginning and implement it 3<sup>rd</sup> year onwards. Hence the programme will have ample time to facilitate in such a way that the institutions will progress as per the business model mentioned above.
5. As planned service charge shall be collected by the SHG Federation and will be deposited at Apex Federation account. This amount will not be spent as expenditure up to the completion of 7<sup>th</sup> year because financial implication will be supported by the Programme.
6. The income generated in each year at Apex level need to be reinvested for enhancing corpus fund.
7. 5<sup>th</sup> years onwards social expert, CSP and leaders of the Apex Federation should manage the above activities without seeking support from ITDA or FNGO
8. After withdrawal of programme the Apex Federation can manage on its own. Instead of social expert they can recruit experienced graduate.
9. 5 CSP and 1 block integrator will run the institutions with the help of community and overall supervision by ITDA.

At the end of 7<sup>th</sup> year an Apex Federation will have a corpus of Rs. 32.99 lakh (Rs. 16.25 lakh as revolving fund + 16.74 lakh as income to apex fed.). If the Apex Federation is able to manage funds as mentioned in the table it will be financially sustainable.