

ALTERNATIVE MICROFINANCE SUMMIT

June 21-23, 2011

@

Hyderabad

PROCEEDINGS AND POLICY RECOMMENDATIONS



Introduction

Globally microfinance has emerged as an inalienable part of strategies to address poverty. From concept to commissioning, microfinance has development underpinnings. The commercial business perspective is considered quite alien. Access to microfinance services has enlarged the choices and opportunities for the poor to raise their income level and improve their quality of life. It is more of development finance and not charity nor a pure commercial business. It has been demonstrated that the microfinance operations per se is sustainable on its own without commercial motives. However there is wider appreciation over the need for public investment in the microfinance eco-system to create the necessary infrastructure, putting-in place systems and capacity building to realize the full potential of microfinance intervention in terms of scaling-up the livelihoods, expanding businesses and enlarging the enterprises. In other words the microfinance clients should not be burdened with such costs.

With this clarity and sense of purpose, microfinance operations have started expanding globally and in countries like India and other Asian countries the development focus has had the primacy. The microfinance is seen as an alternative finance to the mainstream finance which is inaccessible to the poor as well as to the informal system which is exploitative. The contexts like Africa and Americas, microfinance institutions have been established to deliver micro credit, whereas in context like India, the mainstream banking system is mandated for social lending have reached out to the SHGs for financial linkage. This has led to the question as when microfinance will become part of mainstream finance. Further, micro credit and its delivery has occupied the center stage, whereas, its bouquet of financial services would be much more effective in achieving the purpose of poverty reduction, which means offering savings, insurance and remittance services.

Alternative Paradigm and Perspectives

There is a greater concern across the globe that microfinance programmes have been drifting from the original purpose and moved away from the primary objective of addressing poverty rather more concerned with the sustainability resulting in crass commercialization with its attendant impact of chasing profits at the expense of clients and hence increasingly we are asking the question what has gone wrong with microfinance. However the

alternative perspectives of community ownership, building social capital through microfinance and leveraging microfinance for larger development process and outcome have been expressed well in many microfinance programmes across the globe, particularly in Asia.

Savings first approach lays strong foundation for a suitable microfinance programmes and the social capital provides platform for the micro insurance services. The social development interventions involving health, education, livelihoods, gender empowerment and mainstreaming are among the important perspectives in this alternative paradigm. These alternative principles and approaches are embedded in poverty school approach. It is this focus, combining the social, financial and economic inclusion which set the tone for the alternative summit.

Alternative to Mainstreaming

Should these alternative perspectives and practices continue to remain so? This is currently generating quite a debate as to when and how the mainstreaming would happen. In fact it is a formidable challenge, which needs to be realistically looked at for different contexts in the globe. From this perspective, it is a matter of gratification that India has put the best foot forward by initiating, advancing and advocating the social capital model of microfinance intervention under the enabling framework, wherein the development NGOs/Governments are playing the facilitating and enabling role. The microfinance has been rooted in the communities and their institutions. Whereby microfinance being pivot around which grassroots community institutions, leadership have spawned and sustained livelihoods, health and education programmes. This leveraging of the social and financial capital created by microfinance holds greater promise for engendering larger positive developmental impact. This should be the dominant paradigm of microfinance and when that happens, mainstreaming of microfinance would have been achieved and microfinance would be much more meaningful, that is microfinance as it should be.

The Alternative MF Summit

This Alternative MF Summit organized by Inafi India in association with NRLM and SERP at Hyderabad, India, from 21st – 23rd June, 2011, has set the tone and marks the beginning of the process towards mainstreaming the MF and thereby inclusive development. This document details the Summit proceedings and the policy recommendations made.

Day 1 21.06.2011 – Inaugural Session

Mr Nallari Kirankumar Reddy, Honourable Chief Minister of Andhra Pradesh

We are at a very crucial juncture in case of microfinance. The first phase of microfinance has been over and we have seen a tremendous impact on the rural poor. The bigger challenge is how we are going to sustain it. Andhra Pradesh has been a pioneer in spearheading the microfinance movement in India. A small beginning made over a decade back has made a significant change in the lives of the poor communities. Today the SHGs have a plan of mobilising credit from the banks to the tune of Rs. 9200 crores and all the SHGs are maintaining 95-96 percent repayment. The repayment is slightly lower as there was a promise made by the political parties for waving of loans if they were elected, otherwise it would have been 99.9 percent.

The groups get loan from the commercial banks at an interest of 12 percent p.a. When they make repayments to the banks, the groups pay only an interest of 3 percent p.a. the remaining 8 percent is borne by the State government. I am proud to say that the government has paid Rs. 700 to 750 crores towards this interest payment alone. This is the level of commitment the state government shows on SHGs.

The Indira Kranthi Patham has made a lot of impact on the poor women. The poor women have gained confidence and they command control over finance in their families. The collective strength that the poor women gained from their institutions has been able to bring them confidence and courage to get into new ventures.

In my home district, dairy is a predominant activity. Everyday 14 lakhs litres of milk is procured. Until our intervention, the private dairies were making huge profits, they syndicated to fix minimum price of Rs. 6 to 7 per litre which could not fetch any surplus to the farmers. The Federations promoted by Indira Kranthi Patham (IKP) have approached the NDDB for procurement and a cooperative arrangement was made to procure the milk through the producer groups. Today out of 14 lakhs litres, our SHGs procure 2.5 lakhs litres every day. They have planned to increase their procurement to 5.0 lakhs litres. The procurement price of milk has gone up to two to three times, not only for the SHG members, but also for the other farmers involved in dairy activity. This is an example a proactive initiative taken up

by the IKP to benefit the poor communities. Similarly corn procurement in Kharimnagar and Warangal districts was taken up by the SHGs. The IKP Groups have procured 20 lakh metric tonnes of paddy last year, and we took Rs. 2000 crores from RBI for procurement. Now the IKP is working on increasing the production of crops through optimum utilisation of resources, integrated farming with livestock, buffaloes and poultry with soil and nutrition management programmes.

In the recent years, the entry of some of the microfinance institutions (MFIs) have created disturbance among the SHGs. We do not have objection over their operation and we accept the need for private financial institutions to fulfil the credit needs of poor families. But the amount of interest that they charge was a matter of concern for us. The exploitation through huge interest rates and coercive methods of loan recovery made us to bring a regulation. Because of the necessity of the poor, they cannot exploit them. We are ready to engage banks to help them get their repayment. We are telling them if they could reduce their interest rates we would be able to help them.

We would continue with our commitment to make the SHGs and their institutions sustainable. The major reason for the SHG members to go for MFIs is that with the conventional SHG Bank linkage programme, once the SHG get the first loan, until they repay they cannot take another loan. When they are in urgent need of credit, they could not get from the banks. We are planning to promote a Non Banking Financial Institution to provide loans through the Mandal Smakhyas. The State Government would provide a seed money and we expect contribution from the Central Government as well. We would soon launch this bank with the corpus of Rs. 200 to 300 crores.

The impact of SHGs is not only on economic front alone. The poor women have gained confidence to face any situation at any level. They have been empowered socially. This could be evident from the Government's gesture to nominate a SHG woman as a Member of Legislative Council. Srimathi Angoori Lakshmi Sivkumar was a poor SHG woman, who had to fight a battle within her family and she demonstrated her capabilities a SHG representative at different levels. I interviewed over 20 women for this nomination and we finally made her as MLC. Hereafter for representation of women for any forum, we would first look for IKP members. I am looking for more insights and way forward from this Summit, which would help us to take the SHG Movement ahead.

Mr R. Subramanyam, IAS, Principal Secretary-Rural Development, Government of Andhra Pradesh.

It is really apt that the conference is organised at Andhra Pradesh, the home of SHG Movement. It has registered the largest number of SHGs anywhere in the world. When we carry out poverty census this year, we expect a sharp reduction of poverty. We have seen with our own eyes how people prospered from the extreme state of poverty. A huge social capital has been built through this SHG Movement. The Movement unleashed the potential of SHG leaders with confidence and knowledge, and they are looking ahead for bright future for not for them but also for the fellow women in their groups. They have started educating their children in professional education and many of them have sent their children abroad as well. The much talked financial inclusion has already been proven here, each and every family in this State has been connected to the SHG Movement. It is no longer a theory, it is in practice here. Nearly Rs. 30,000 crores has flown in to this sector through SHG Bank linkage in the last 10 years.

We have few challenges; the biggest challenge is the intrusion of exploitative financial institutions. Because there is a very strong social capital built and credit discipline created among the SHG Members, some MFIs are trying to bank on this and make quick money. We have no quarrel with the institutions working on win-win situation. But what we have seen in the State of Andhra Pradesh is the Win-Lose situation, where the little surplus generated by the SHGs has been eroded by the MFIs. The women had to suffer a lot. This made the Government to bring a strict regulation on them. Now we are looking at the credit gap in the SHGs to meet their higher credit needs. Also the Government is working on two separate product lines. The time has now come to go for second generation grouping of SHGs based on their product line. We have seen how the dairy business has prospered and transformed the lives of the poor people in Chittoor district. We are looking at similar interventions in other 15 subsectors that we have identified. The second generation grouping would help offer not only credit required for the members, but also credit plus services. A separate NBFC would be set up and the credit would be routed through the People Institutions, so that the credit gap is addressed. The third challenge is addressing the social and demographic indicators. The changes created in economic front should get translated into positive changes in the social and demographic indicators.

Mr T. Vijay Kumar, IAS, Joint Secretary(SGSY) & Director, National Rural Livelihoods Mission, Ministry of Rural Development, Government of India.

We look for a lot of inputs from this conference for the National Rural Livelihoods Mission. What we have learnt through our journey for the past 15 years is the great capability that each poor person within her. Despite their capability, they are pushed into poverty and when they are organised into institutions and provided resource support, they could unleash their inherent capability. There are a lot of lessons to be learnt from the SHG experience in the states of Andhra Pradesh, Kerala, Tamil Nadu, Bihar and many other states, also in the other Asian countries where the SHG Movement has been rooted strongly. Thanks to the efforts of the States and NGOs for their contributions. There is no hard guideline to implement NRLM, each States can develop their own guidelines based on their experiences and they have been asked to prepare a seven year perspective document and also annual action plan for each State.

There are challenges to address at this point. Firstly the challenge of extreme poverty and poverty eradication in the extreme geography of this country, and how are we going to reach out to the poor. What are issues in scaling up programmes like this and what are successes and failures that we are going to learn from this.

Secondly the institutions of the poor, the community based organisations of different sizes are critical for the implementation of poverty reduction strategies. At the same time these Peoples Organisations are catalysed by the Government and NGOs, how the relationship between the CBOs and promoting organisations going to change. It is an important issues to be discussed.

IN one side there is a proactive States in nurturing the SHG Movements and on the other side hardly there is any presence of Government in this issue. How are we going to address this imbalance and what should be and should not be the role of the government in nurturing the Movement and making the communities self-reliant.

We should demonstrate that the CBOs are holistic and not just providing financial services. They are handling all other issues through relevant products and services. We will have to work on livelihood based organisations and livelihood promotion, which is an issues for the next generation SHGs and organisations. Finally, the risk management, what are

the best practices in risk management and how era we going to learn from others' experiences.

Mrs Angoori Lakshmi Sivakumari, Member of Legislative Council of Andhra Pradesh State.

Mrs Angoori Lakshmi who has been nominated by Andhra Pradesh Government as member of Legislative Council has done an interesting journey by poor women to the MLC and involved in making laws. She shared her experience being SHG and how it helped her to become a leader of Federation at the local level and subsequently at the provincial level.

Mrs Humaira Islam, Founder Executive Director, Shakti Foundation Bangladesh

Mrs Humaira Islam expressed happiness that globally how the microfinance movement has enabled women to address multiple development issues concerning them. In fact, women, for long, has been bypassed by the development process and the stories of success like that of Mrs Angoori Lakshmi Sivakumari brings a sense of satisfaction to the microfinance stakeholders and these are the stories that we are hearing now after the launching of microfinance in contexts like Kenya, Sri Lanka and Latin American countries. But, we have many challenges to meet. To make this microfinance movement a sustainable process for a long haul there is a need to create opportunities for the women on social, economic and political front, so that women realize their full potential and complete transformation happens in their lives.

Mr Yugandhar, IAS (Retd), Former Member, Planning Commission, Government of India.

Inclusiveness or inclusive development is much misunderstood subject in our country and all over the world. It is a complex subject, it requires first of all inclusive thinking. Inclusiveness is not just finance alone; it has social, political, cultural and ecological implications. Therefore the inclusive development is not a consequence of growth or development; it is a process of growth and development. Building SHG Movement and convergence of development programmes with SHGs are extremely important for bringing inclusive development. Also inclusive development cannot be centrally administered and monitored as some of the States trying to do. The tendency is that microfinance is a universal solution for all the problems. Nine states in India are performing badly in Multi Dimensional Human Development Indicators, despite their intensive work in SHG Movement. It

needs a for multi dimensional approach to tackle the issue of Human Development.

Mrs V Sunitha Laxma Reddy, Minister for Indra Kranti Patham, women, Children and Disabled and Juvenile Welfare, Government of Andhra Pradesh

The Hon'ble Minister complimented the SHGs for providing an alternative mechanism for accessing financial services through Bank linkage and demonstrated that poor are bankable. She said that microfinance has emerged as an important strategic instrument in the poverty alleviation programme of Government and the programme of the state of Andhra Pradesh on SHGs and building SHG based community instruments has emerged as a role model for the country. The SHGs have made an important contribution to financial inclusion and the credit disbursement in the state of Andhra Pradesh to the SHGs, rising from 197 crores in early 90s to 9083 crores in the current year (2011). In fact, she felt happy that the share of Andhra Pradesh state is as much as 15% in this process of Bank linkage in the country and Andhra Pradesh leads the way. More importantly, she drew the attention of stakeholders to the significant impact through SHGs in building savings as a habit for the poor. She talked about the social and political empowerment process and applauded the SHG leader Mrs Angoori Lakshmi Sivakumari, who has been nominated as a Member of Legislative Council of Andhra Pradesh state. Thus, the political empowerment process is also a significant fall-out of the SHG movement and referred to the earmarking of 50% representation of the SHGs in the local bodies, which is a historic step. She also stressed the importance of focusing on livelihoods on sustainable basis for SHG members and also the need for building credit discipline. She said that to avoid multiple lending, Credit Bureau system is being put in place through recent state legislation for orderly growth of microfinance sector. She also informed about the initiative of the State Government to establish an exclusive financial institution for financing SHGs under the NBFC framework. She emphasized that microfinance should have development orientation and not profit at the expense of poor.

Dr D. Veerendra Heggade, Dharmadhikari, Dharmasthala, Karnataka.

Mr Heggade in his inaugural address referred to the process of development in the villages although the urban, rural divide has been quite sharp. One of the important factors facilitating this development process in villages and for the poor is microfinance in particular micro credit. Long before the

Bangladesh experiment became well known, the banking sector in India was quietly being strengthened to provide services to the deprived sections of the society. The famous bank nationalization ordinance of 1969, promotion of National Bank for Agriculture and Rural Development (NABARD), strengthening of cooperative sector and cooperative banks, introduction of the grameena bank scheme in 1981, the Integrated Rural Development Programme (IRDP) in 1982 have all brought credit at the doorstep of the rural poor. However, he stressed that financial services have their own limitations and while they are important, it not a panacea. He talked about the two successful experiments of SKDRDP which is now widely replicated across the country - RUDSETI model for skill building and also the holistic development approach of SKDRDP of enabling institutions from the Dharmasthala. No doubt the SHG movement has empowered the rural folk particularly the women and the principle should be social services and not the profit orientation. He sought for the State Government involvement in creating conducive atmosphere for SHGs and MFIs to grow and flourish in order to make the credit affordable. Mr Heggade suggested for providing interest subsidy as an incentive for prompt repayment also besides taking care of affordable factor.

Mr Jairam Ramesh, Minister for Environment and Forests, Government of India

The borrower should become self-sustaining re-payer of that credit and use the credit ultimately to come out of poverty. I think that this summit is timely and I am happy to note that colleagues from different countries, particularly from Bangladesh, which in many ways symbolises the success of microfinance. I do want to say that the Indian model is different from the Bangladesh model. The Indian model is Bank linked SHG Model, whereas the Bangladesh model is a traditional microfinance model based on the joint liability groups. In case of MF with joint liability groups model pioneered by Prof. Mohammad Yunus of BRAC, the focus is on credit and finance. Whereas, the Indian model is based on the Social Capital, less on financial capital and more on social capital and human capital.

In the last two decades we had a phenomenal increase in the bank linked SHGs in our country. Unfortunately there is no reliable estimate of how many SHGs linked with banks. There are estimates ranging from 2.3 to 5 million bank linked SHGs in our country. I hope soon NABARD with the help of Unique Identification (UID) Project would tell precisely how many Bank linked SHGs. But whatever the number, it is indisputable that the States of

Andhra Pradesh as well Kerala are the pioneers in the bank linked SHG model. I congratulate for the leadership role assumed by the State of Andhra Pradesh for the last one decade in a sustained manner in the SHG movement. It is happy to note that over 40 percent of all the credit issued to all the SHGs all over the country has been given to SHGs in Andhra Pradesh alone. My tributes for the efforts taken by the State to institutionalise the SHGs with about one million SHGs and 10 million members. Now the success realised in Andhra Pradesh is being replicated in other states such as Bihar, UP, Rajasthan, Orissa and many other states in the country. I do congratulate the State for going beyond SHG Bank linkages, by involving SHGs in other developmental tasks such as maize and paddy procurement, health insurance and many other activities in implement the social development agenda. So the SHGs here have emerged as not just borrowing institutions, but they act as institutions of social capital, which are playing a crucial role of implementing various welfare activities.

The union government has already taken a decision to reduce the interest rates for SHGs, which can avail loans at an interest rates fixed for crop loans. The National Rural Livelihoods Mission has already been launched and with the recent decision the SHGs can get loans at an interest rate of 7 percent. If there is a demand for reducing it further, I would support that proposal. I heard that the Government of Andhra Pradesh is planning to launch an exclusive financial body to finance SHGs, I would like to mention here that the Government of India has already proposed in its last year budget to set up a separate financing window with an initial corpus of Rs. 500 crores. I hope this would transform into a National Bank for SHGs in near future.

The entire world is looking at the Andhra Pradesh model. I would like to caution that the SHG model in AP is not sustainable. It is sustainable with the subsidy of Andhra Pradesh government and the World Bank subsidy. I believe the single biggest challenge for the SHG Community to make it financially sustainable. With roughly one million SHGs, 34000 Village Organisations, 1100 Mandal level Federations, it has been demonstrated that SHGs alone is not effective, when federated as Mandal Samakhyas, they are effective. This three pillar structure with Pavala Vatti, are the critical factors for the success. We must determine a threshold level in which the Mandal Samakhyas are financially sustainable independent of Government and government companies. When the Mandal Samakhya could generate a monthly income of Rs. 50,000, that can be classified as a sustainable institution. In my view the income of Rs. 50,000 should be of non interest

income. It can be a mix of non interest and interest income progressively towards non-interest income increasing. Presently about 50 percent of the Mandal Samakhyas are financially not sustainable. Addressing the issue of financial sustainability is a bigger challenge. We should work towards an objective of making all the Mandal Samakhyas sustainable at the end of five years. We should send a strong message to the microfinance community that SHG Federations could be financially sustainable and run without government subsidy.

We all feel proud when we say the SHGs have empowered women and brought them dignity. But the Challenge is how far the dignity and empowerment brought them financial strength. One outstanding example is the milk procurement experience of Chittoor SHGs; I can say with pride that 10 percent of the milk sold at Delhi is coming from Chittoor. It has become an economic engine for this region. These kind of economic engines needs to be identified and nurtured.

The other challenge is integration with the Panchayat institutions; this is where the Andhra Pradesh differs from Kerala. In Kerala the SHGs and Panchayat institutions converge in implementing development programmes. Such integration needs to be replicated in Andhra Pradesh also. They should complement each other and they should not compete.

Because of the cut throat commercial tactics of a few Microfinance Institutions we should not condemn the entire Microfinance industry. I Congratulate the State Government for the regulation that was brought out, which was criticised by some Ministries in the Union Government. I support the view that microfinance needs regulation. Even the Malegam Committee appointed by the Reserve Bank of India recommended the need for such regulation.

If the MFIs involved in social capital formation we would not have found any problem with them, whereas the MFIs are primarily focusing on mobilising share capital, profits, foreign investment, and not concerned about the social capital, we are finding an issue. The microfinance industry should wake up. And we should learn a lot of lessons from these MFIs, particularly, their ability to offer a cafeteria of products, at the time when the borrower wants, for the purpose for which the borrower needs. Whereas the bank linked SHG model, the members could avail only the products available with the banks and at the time when the banks wants to issue loans. We should make determined efforts to make sure that there is a range of products available at the time the borrower wants. If we do this, the market would reject the

MFIs. For an example, the biggest demand for the rural India is the need for educational loans, whereas the organised financial system is unable to cater to this need at right time and right quantum of support. While I entirely endorse the regulation that was brought out by the Andhra Pradesh Government, I do want to request the State Government to follow the innovations of the MFIs in terms of the nature of the products and timing of the product, also offer it with Pavalu Vatti, then allow the market to reject the MFIs. Today the MFIs look at the microfinance as just a business. I do want to request the MFIs to treat banking with the poor as not just a business, but a serious business.

I am delighted to learn that today there are practitioners from different countries attending this summit. It is an opportunity to position the Andhra Pradesh model of microfinance and we need to learn from the experience of other countries as well. Through this summit we should re-establish the image of microfinance among the public as not just a solution, but a supplement to the mainstream efforts for poverty alleviation.

PLENARY SESSION

Mr M. P.Vasimalai, Executive Director, Dhan Foundation

Mr Vasimalai said that the Summit is happening in the backdrop of SHG movement almost completing two decades. Since its advent, the country has witnessed a silent revolution and development in the lives of poor women, where the women are getting more confident and taking charge of their lives and building effective demand stream. SHGs are quite unique that they are not mere microfinance institutions but a larger development institutions focusing on reducing poverty by addressing multiple development issues. This sets the enabling microfinance model of SHGs apart from the delivery model of MFIs. SHGs have been advancing on three fronts – social, financial and economic inclusion. The social capital and financial capital generated by SHGs are becoming cornerstone of development interventions to address poverty in India. Yet, it cannot be over-emphasized that microfinance remains at the core of SHGs.

Be that as it may, Microfinance should focus on enlarging the choices and opportunities of the clients rather than on a mechanical delivery mode or a supply driven. It has to be redefined from the perspective of clients that promotes and enhances the social capital, the leadership of the clients. In other words, taking charge of the microfinance by clients themselves.

The microfinance eco system which builds social capital has a greater potential to create and nurture specialised people institutions to offer specialised products like social security. Stressing the holistic development through microfinance he emphasised four generation approach starting with social intermediation, financial intermediation, livelihood intermediation and civic intermediation. Interestingly the practitioners have begun to realise the space being provide by the microfinance to localise MDGs with context specific target and indicators. Towards this end, State, Banks, academia, market and people institutions have to have the greater appreciation and sensitization. Calling for greater integration of microfinance with other development programmes including livelihoods, climate change adaptation, the need for long term engagement cannot be over emphasised.

Mr Shakila Wijewardena, Managing Director and Chief Executive Officer, SEEDS, Sri Lanka.

Microfinance should ultimately lead to self reliance. Microfinance institutions whatever may be the typology- village banks, SHGs, larger groups, etc need to focus on good governance and non financial capital (social capital) and the financial capital need to be judiciously integrated with the operations.

Mr Zakir Hossain, Executive Director, BURO, Bangladesh

Financial inclusion is a matter of creating equal opportunity, which enhances choices. The poor do not want charity, they want access and opportunity for financial capital to become self reliant on their own. This will bring about development with dignity.

Ms Ruth Mamerta Callanta, Centre for Community Transformation, Philippines

She emphasised on the critical importance of the capacity building in running microfinance clients both for the clients and the civil society. As has been evident from the experiences, Microfinance per se could not be effective for holistic development, which needs to be an integral part of the integrated poverty eradication measures. All these works, in the ultimate analysis should lead into empowerment of the marginalized.

After the inaugural and the plenary sessions in the pre lunch session, the Summit had many parallel sessions on the following topical issues:

Day 1 21.06.2011

1. Social Inclusion and Social Capital
2. Building demand stream-SHG Federations
3. Governance and legal issues in community managed MF Programmes
4. Self-regulation
5. Special purpose people institutions
6. Tribal Livelihoods
7. Farm based livelihoods
8. Coastal Livelihoods
9. Livelihood systems – Supply and value chain approaches
10. Skill building for livelihoods
11. Social Impact Measurement Tools.

Day 2 22.06.2011 – Field visit to SERP programme areas.

Day-3 23.06.2011

1. Savings – Innovation in Product and Delivery
2. Development Credit
3. Social Security for poor
4. Migration and Remittances
5. Consumer Protection
6. Microfinance and Financial Inclusion
7. Microfinance and Health Programme
8. Microfinance and natural resources management
9. Microfinance and Gender empowerment and mainstreaming
10. ICT in Microfinance
11. Connecting MF and MDGs
12. Mainstreaming Insurance to People living with HIV

Day 1 – 21.06.2011

Session 1 - Topic: Social Inclusion and Social Capital

Chair: Mr Jacob Thundyil, PREM, Orissa

Speakers:

1. Ms Ruth Callanta, President, CCT, Phillipines
2. Dr Manjunath, SKDRDP, India
3. Mr Jaipal Singh, Centre for Microfinance, India
4. Mr Shalimath, IDF Financial Services, India

Learnings and Issues

- Microfinance as a development instrument has proved its usefulness for building social capital in reaching out to the poor and also the other excluded population such as, poorest of the poor, aged, destitute women.
- Highly vulnerable groups are to be organised with the help of microfinance exclusively with higher degree of sensitivity and innovation.
- For promoting and expanding social capital model, which advances social inclusion process shall have the greater support of the public funds.
- Community based but family focused approach delivering integrated holistic services for sustainability.
- Kalanjiam Development Financial Services and IDF Financial Services has community owned NBFC MFIs with social focus being sustainable business unit as an alternative model based on social capital vis-à-vis commercial MFIs.
- Leveraging social capital of SHG Federations for beyond microfinance development framework including education, health, social security net, pension products, etc.

Policy Recommendations

- The Summit recognised the immense importance of social mobilisation leading to building of social capital through microfinance interventions, particularly the SHG model as happening in India. As the social capital lends itself for holistic development work sustaining through the chemistry of microfinance, the Summit strongly recommends for social capital model of microfinance and also calls for public investment through grant support for building such model. The Summit has also identified the areas requiring public investment including capacity building of NGOs, civil societies (enabling stream) and demand stream of clients, SHG leaders, systems and technology infrastructure for delivering and availing of financial services.

Session 2 – Topic: Building Demand Stream – SHG Federations

Chair: Mr Jagannath Rao, Director, SERP, Govt. of AP, India

Speakers:

1. Mr N. Karthikeyan, Kalanjium Foundation, India
2. Ms Jane Manucdoc, ASKI, Philippines.
3. Mr Hasan Ali, Executive Director, Palli Bikash Kendra, Bangladesh

Learnings and issues:

- Building a strong demand stream in the form of SHG Federations is critical for creating access to resources and control over the issues affecting their lives.
- The SHG Federations provides social safety-nets to the vulnerable communities and creates opportunity for them to negotiate with the mainstream to claim their entitlements.
- The social capital built by the SHG Federations should be converted into financial capital, as both are critical for achieving self reliance and sustainability.
- ASKI MBA programmes of Philippines has demonstrated the importance of building demand stream of clients around microfinance under the institutional framework for long term sustainability ASKI MBA experience has opened up access to micro insurance services for the poor with their own management.
- The Palli Bikas Kendra have similar experience and lessons as to how the community based Federations provide a forum to ensure right of access to financial services and also ensuring entitlement of Government run safety net programmes. The Federations also play very critical role in capacity building of Self Help Groups.
- Kalanjiam Community Banking Programme of Dhan Foundation has brought to fore the social financial, business and civic interventions being enabled by the demand stream of SHGs and its Federations. It has been quite effective in integrating microfinance with civic initiatives which include:
 - Remedial schools and the tuition centres
 - Reproductive and child health programme
 - Anaemia control programme
 - Malaria control programme in North India
 - Water, sanitation and hygiene (WASH) programme
 - Sustainable Health Care Advancement (SUHAM) programme
 - Mutual Health Insurance Programme
 - Livelihoods:

- Dairy
- Agriculture inputs
- Herbal
- Charcoal
- Livelihoods initiatives through functional education.
- Older Federations with good maturity could also become resource centres for promoting/nurturing SHGs and its Federations.

Policy Recommendations:

- SHG being small entities, if left to stand alone, may not emerge as an effective demand stream and the long term sustainability is also suspect. Therefore, the Summit strongly recommends networking of SHGs as a part of the promotion effort for building stronger and effective demand stream for ensuring access to financial and other services and also entitlement from Government. Professional management along with community leadership and governance need to be put in place and strengthened for these secondary and tertiary institutions of Federations, Confederations, etc.
- Public investment is called for building this kind of social infrastructure for building governance and leadership putting systems and other infrastructure including technology applications. The Government should encourage and incentivise such Federations which move beyond microfinance and undertake livelihoods and civic interventions covering health and education, etc.

Session 3 - Topic: Governance and legal issues in community managed MF Programmes

Chair: Mr Shesadri, Consultant Chartered Accountant – Bangalore

Speakers:

1. Dr Yerram Raju, SERP, Government of AP
2. Ms Usha Rani, Director, SERP, Government of AP
3. Mr Emranul Haque Chowdhury, UDDIPAN, Bangladesh

Learnings and issues:

- SHGs/demand stream need good governance and leadership becomes very crucial as it has an important bearing on the effective functioning of the people institutions and also their sustainability.

- Microfinance with enabling approach provides space for people to practice democracy at the grassroots and help evolve norms of better governance of the financial services and also for addressing other development issues.
- Community based SHG programmes such as cooperatives and its Federations bring greater opportunities for the grassroot leaders to be trained on building better governance systems at the local level as has been demonstrated by some of the SHG Federations.
- There is a need to encourage and strengthen Governance system of the demand stream with enabling legal framework.

Policy Recommendations:

- Like Banks, NPO-MFIs should enjoy general exemption from the provisions of money lending laws.
- If an entity is treated as charitable under the Income Tax Act or is licensed under section 25 of the Companies Act, Service Tax should not apply. Uniform definition of charity is to be applied.
- Foreign Contribution (Regulation) Act, 2010 - SHGs are beneficiaries. So are the Federations of the SHGs. Contributions to SHGs and Federations of SHGs should be treated as utilisation. Specific reporting may be sought. Prior approval is to be specifically dispensed with.
- Income Tax Act – The proviso targets only the residuary limb. Educational institutions and hospitals charge for their services. How can NPO-MFIs not charge the borrowers? As long as the activity is one of poverty relief, Section 12AA and exemption should apply to NPO-MFIs. The law is clear but its administration is the problem. CBDT could clarify the issue of NPO-MFIs through a circular.
- Direct Taxes Code – Activities to alleviate poverty whether by NPO-MFIs or Federations of SHGs should be charitable purpose. Federations of SHGs work for their members for specific reasons like peer pressure, homogeneity, geographical proximity etc. These are not commercial associations seeking to promote the commercial business interest of their members. The provision is to be dropped.
- The RBI – Loans to Federations of SHGs should be permitted without limit. The purpose is not to be specified in the notification. Repayment of high cost loans will contribute as much to the welfare of the poor as running a business enterprise.
- Mutual Associations – A separate law governing mutual association or a separate chapter under the Companies Act like on producer

companies is essential. The law /provision should cover definition, characteristics, rights, liabilities, exemptions and governance. This is more urgently required due to the proposed DTC excluding them from the purview of NPOs. Mutual associations of the poor should be exempt. Mutual Associations of the poor fulfilling definite criteria should be exempt from income tax.

Session 4 - Topic: Self-regulation

Chair: Mr C.S. Reddy, APMAS, Hyderabad

Speakers:

1. Mr Shakila Wijawardana, SEEDS, Sri Lanka
2. Ms Shanthi Maduresan, Infos, India

Learnings and issues:

- Self-regulation is a value, which encompasses evolving goals, and practising norms and policies by the SHG Federations themselves for the development of their members without compulsion from external forces. Self-regulation nurtures and moulds the self-discipline of individuals, groups, communities and society.
- Each SHG Federation should draw a road map and set standards for governance, financial and social development aspects according to their age and contexts and evolve action plans for implementation and self review.
- Self-regulation provides an enabling and guiding framework for the demand stream of SHGs, Federations, cooperatives for orderly growth and development.
- In microfinance context with development focus, self-regulation emphasizes developmental, institutional perspectives along with financial standards. This holistic development approach contributes the stability and sustainability of the community based microfinance programmes.
- There is a need to build the capacity in the peoples' institutions to practice self-regulation as a value so that the purpose of microfinance would be realised with the holistic focus.

Policy Recommendations:

- The sector stakeholders need to appreciate the importance of self-regulation for the demand stream, whereby, the people own the microfinance programmes, the quality and sustainability are ensured.
- Self-regulation shall become part of overall regulatory system to ensure orderly growth of the sector.

Session 5 - Topic: Special purpose people institutions

Chair: Mr. M.P. Vasimalai, Dhan Foundation, India

Speakers:

1. Mr Atiqun Nabi, MIME, Bangladesh
2. Mr Balasubramanian, People Mutuals, India

Learnings and Issues:

- The issues of poverty have different dimensions, forms and are highly contextual. It necessitates creation of specialized Peoples' Institutions to address specific needs like social security.
- Special purpose peoples' institutions are necessary to deepen the microfinance services
- SHGs have become the core and basic development institutions with microfinance as a key component. The need for special finance services such as Insurance especially on the basis of mutuality principle requires separate peoples' institutions for the particular specialized services. SHGs eco system enable the process as for example the People Mutual promoted by the SHGs members and enabled by Dhan foundation for insurance services and the producer companies in ASA context for livelihood purposes.

Policy Recommendations:

- The mainstream institutions such as Governments, Insurance companies and corporates should support initiatives for promoting special purpose peoples' institutions for insurance livelihood etc., depending upon the purpose and the need.
- The enabling stream including the Government and NGOs should come forward to facilitate promoting of such institutions in the SHGs eco system and build capacity and systems for effective delivery and sustainability.

Session 6 Topic: Tribal Livelihoods

Chair: Mr Yogesh Sawant, BAIF India

Speakers:

1. Dr K.P. Rao, NIRD, Hyderabad
2. Mr Vittal Rao, Dhan Foundation, India
3. Mr Sirajul Islam ED, ASHRAI-Bangladesh
4. Mr Stan Bonagiri, Agriculture and organic Farming Group, India

Learnings and issues:

- Tribal economy is mostly non-monetized or semi-monetized economy. Tribal livelihoods are primarily based on access to forest, availability of land and water resources. Microfinance interventions should focus on creating access and enhance performance of such assets.
- Promotion of horticulture would help conversion of underutilized and degraded land to productive asset for the tribal households, and it can reverse migration to a greater extent.
- The Wadi (Orchard) model of BAIF Development Research Foundation for the degraded lands in the tribal areas is a compelling take for promoting livelihoods for the tribal people.
- The model has been in vogue in many states including Gujarat, Maharashtra, Karnataka, Uttar Pradesh, Rajasthan and Madhya Pradesh.
- Wadi is a much integrated approach with the orchard on mangoes, cashew and amla and also hedge forestry.
- Wadi has prevented distress migration of tribals.
- Women and child health have been added to the WADI programme.
- Post harvest processing including making of pickles and pulp of the fruits and marketing with the common brand has been advanced with the increase in the scale of Wadis.
- Forest based products (non-timber) through gathering and marketing groups is another sustainable activity broad based in tribal areas of Adilabad in Andhra Pradesh by the Dhan Foundation.
- Agriculture Organic Farming Group presented their work of organic agriculture and sustainable livelihoods for cotton and pulses.
- Producer Company of farmers involved have been promoted for the larger good and scale advantage and also for sustainability.
- The social capital mobilized among the tribal communities through the microfinance interventions could be a driver of change, which can help

them bargain collectively for protecting their rights on land and forests.

- Non-availability of skilled human resources in the field areas, lack of support from the mainstream including Government particularly the access for working capital and funding, competition from BT cotton, lack of infrastructure have been identified as an issue and the challenges faced by the farmers of this producer company involved in cotton.

Policy Recommendations:

- Replicating WADI model in the upgraded tribal lands emerged as a key recommendation for promoting tribal livelihood.
- Organising the tribals around microfinance for sustainable access to financial services is considered as an important approach for livelihood intervention in tribal belts.
- From the SHG eco system of tribals, primary marketing groups for non-timber products could be organised and expanded.
- Producer Company of tribal farmers need funding support through mix of grant and equity besides access to financial services by the mainstreaming banking system.

Session 7 Topic: Farm based livelihoods

Chair: Mr D Raidu, IAS(Retd), Director, SERP, Government of Andhra Pradesh

Co-Chair: Mr. Muralidharan, AKSHARA, India

Speakers:

1. Mr Ashis Mondal, ASA, India
2. Mr Mohammad Hasan Ali, ED, PBK, Bangladesh
3. Mr M.D. Vinod, AOFG India
4. Mr Aneesh P Joseph, AOFG, India

Learnings and issues:

- The second generation SHG Federations should be grouped into commodity clusters later transform into producer and marketing

companies and they should identify intervention points that would eliminate middlemen and maximise return for the farmers.

- Need based and context specific insurance products to protect the farmers from crop/yield loss due to natural disasters, credit products responsive to the needs of farmers at an appropriate time are critical for ensuring livelihood security.
- There should be a public investment in creation of infrastructures for value addition and storage to cope up with the dynamic market situation.
- Creation of technical and financial linkages with relevant institutions would help the farmers to enhance their production and productivity.

Policy recommendations:

- Small and marginal farmers need to be organised under enabling framework of producer companies for advantages of scale, collective farming and better bargaining position.
- Producer companies require innovative ways of financing with viability gap funding, short term credits, investment credit.
- Common infrastructure facilities with public investment to support the producer companies are quite essential.

Session 8 - Topic: Coastal Livelihoods

Chair: Mr Vivekanandan, Trivendrum

Speakers:

1. Mr Venkateshwar Rao, APD, IKP, SERP
2. Mr Ephrem, SIFFS, India
3. Mr Rezaul Karim, Chowdhury ED, COAST Trust, Bangladesh

Learnings and issues:

- Livelihood opportunities for fisher folk needs long term strategy, with a focus on fishery resource management, income diversification and capacity building.
- The NGOs to play the role of facilitators and they should use microfinance as a tool for organizing the coastal communities, enabling them to get prepared to face disasters, evolve needs based social security products to fishers.

The following issues are faced while organising the marine based livelihoods for small fishermen:

- Access to formal credit that suits to the needs of fishing communities
- Support the development of self-help groups and cooperatives, drawing lessons (positive and negative) from the past experiences;
- Promoting the use of ICT for fish worker cooperatives and groups to get a better price for their products and for increasing safety at sea
- Improving availability and content of education to fisher folk.
- Consider developing short, medium- and long-term alternative avenues for employment, through appropriate training and credit.
- Small scale fishermen who are capable of undertake deep sea fishing should be given attention with adequate Technical, financial and marketing support by Central and state governments, Banks, fishermen organization etc...
- Under the auspices of Indira Kranti Patham of SERP, livelihood opportunities are identified for coastal communities include processing with cold chain facilities, value added products, connecting small fishermen with the market and fish by-product.

Policy recommendations:

- Village level fishermen institutions shall be organised for sustainable coastal livelihoods based on marine fisheries.
- Fishermen institutions could play a vital role in managing fisheries resources for sustainability.
- Good repayment could be encouraged when linked to source deduction from marketing and repayment worked out as percentage of catch value rather than EMI.
- Marketing financial services, technology, control over fishing inputs for small scale fisheries.

Session 9 - Topic: Livelihood systems – Supply and value chain approaches

Chair: Mr T. Muralidharan, Bangalore

Speakers:

1. Mr Srinivasa Rao, LPD, SERP, Government of Andhra Pradesh
2. Mr Ganesh, Anandham Dairy Project, Dhan, India
3. Mr Rashed Al Hasan, Project Manager, Inafi Bangladesh

4 Mr E.M. Koshy, AOFG, India,

Learnings and issues:

- Good experiences are available in promoting value chain approach around dairy as in the case of SERP and Dhan Foundation. SERP has also introduced backyard poultry under this approach. The experience of Agriculture Organic Farming Group in the coffee and spices for the value chain intervention is quite encouraging.
- Minimum support price and storage facilities need to be ensured by the Government with grant support so also for processing.
- Good learnings came out from the existing experience about the involvement of local leaders from among farmers and women in management and also price fixation and acknowledgement about the need for professional support.

Policy Recommendations:

- The importance of value chain is recognised in delivering higher returns and income from the farm produce. Intervention strategy should be such that the smaller and marginal farmers move up the value chain.
- Keeping in view the National Rural Livelihood Mission banking system should evolve innovative credit products and delivery to ensure that there is no disruption to the entire end to end value chain activities.
- Growth clusters of producer companies shall be identified and strengthened with common infrastructure facilities through grant funding.

Session 10 - Topic: Skill building for livelihoods

Chair: Mr Shylendra, IRMA

Speakers:

1. Mr Ravi Shankar, Director, EGMM, Government of Andhra Pradesh
2. Mr Balasubramaniam, JSS, India
3. Mr Janarthan, Rudseti, India
4. Mr M Abdus Salam, Chief Executive, GUK, Bangladesh

Learnings and issues:

- Skill building initiatives for promoting livelihoods need to be focused on the illiterates, school drop-outs, unemployed and socio-economic backward people.
- Jan Shiksha Sansthan (JSS) experience in imparting and enhancing the skill has been shared.
- JSS model focused on the advantages of need based on-job vocational training programme with job readiness skills, marketing skills with the markets value and work based learning experiences.
- RUDSETI model is another acclaimed initiative of SDME Trust to Syndicate Bank, Canara Bank.
- Targets to rural youths of aged between 18-45 years, to skill building livelihoods, achievement motivation, entrepreneurial competencies.

Policy recommendations:

- Skill building of the masses for wage based employment is need of the hour. Initiatives such as JSS and RUDSETI needs to be expanded and supported.
- Already under the auspices of NRLM, RUDSETI Institutes have been given special importance and more institutes should be started for building skills of large number of youths.

Session 11 - Topic: Social Impact Measurement Tools

Chair: M. Kalyanasundaram, INAFI INDIA

Speakers:

1. Mr Dr.C.P. Nagi Reddy, Director, E&L, SERP, Government of Andhra Pradesh
2. Mr Sivakumar, Dhan Foundation, India

Learnings and issues:

- Microfinance programmes which essentially targets poverty reduction goes beyond financial services and looks at the outcome of such programmes at the poverty levels.
- Many development stakeholders are looking for development impact covering socio-economic aspects of microfinance programmes. Inafi as a network of development NGOs share this objective and with a

view to measure and assess the socio-economic impact of microfinance programmes, what is required is user friendly tools supported by the IT applications.

- Inafi India in association with Oxfam Novib, Holland, has piloted initiative to evolve SIM tools.
- Tools developed with the participation of Inafi members in different contexts have been found to be simple and useful to capture the impact on the ongoing basis.
- SIM tools were launched for wider dissemination among the development stakeholders in the Summit.

Policy recommendations:

- Adoption of SIM tools by NGOs and MFIs alike to keep track of their microfinance programmes and the developmental impact.
- Series of training cum workshops need to be organised for the different stakeholders in using the tools in different countries beyond the Inafi members.
- NGOs, MFIs running MF programmes shall be supported to use the web based tools for building up data-base for their microfinance programmes.

Day 2 – 22.06.2011 (Wednesday) - Field visit

Participants made into 25 sub-groups and each group visited projects of Society for Elimination of Rural Poverty (SERP)

Day3: 23.06.2011

Session 1 – Topic: Savings – Innovation in Product and Delivery

Chair: Mr Graham W.N., Microsave, India

Speakers:

1. Mr Muralidharan, Asstt.Profe. University of California
2. Mr Devilal, PEDO, India
3. Mr Enamul Haque, Executive Vice President, ASA, Bangladesh

4. Mr Subash Mendhapurkur, Sutra, India

Learnings and Issues:

- There is a need to recognise that savings need not necessarily be in the form of financial assets and can be in kind as in the tribal context.
 - Poor save a lot for release of mortgaged assets, asset creation and social security.
 - Because of good savings SHGs could have hassle free bank linkage in a sustained way.
 - Special savings are not rotated as internal loan.
-
- The SHGs members/ Microfinance clients realize that savings build their own capital.
 - For protecting members savings, community auditing would help.
 - There are special savings even for health and education in some of the SHGs in SERP context in Chittoor, Andhra Pradesh.
 - SHGs appreciate the benefits of savings as it rises the woman's status in family & society, eligibility to take credit and make investments, non-dependency on money lenders, investment on future specially children, investment in livelihoods activities , today every SHGs member have a personal bank account.

Policy recommendations:

- Beyond mandatory regular savings, the community based MF programmes such as SHGs, Co-operatives should encourage special savings for specific purpose.
- These must be a clear policy for savings and its withdrawal in the community based institutions including the interest payment, if any. This would lead to transparent transactions and stability.
- SHGs and other CBOs with good track record of savings shall be given incentives and recognition.
- As part of the financial inclusion initiative, SHGs members shall be encouraged to open individual bank account (beyond certain level of regular savings with groups) so as to have the government pay outs arising out of entitlements.

Session 2 – Topic: Development Credit

Chair: Mr E.V.Murray, GM, NABARD, India

Speakers:

1. Mr Prem Kumar, DGM, NABARD
2. Ms Padmavathy, KDFS, India
3. Mr Gadiyappanavar, Sanghamithra, India
4. Md Enamul Haque, Executive Vice President, Bangladesh
5. Mr Muralidharan, India

Learnings and issues:

- Credit policy at SHG levels should be based on need and credit absorption of members and shall be facilitated by NGOs, bankers. Adequacy, timeliness, affordability, hassle free access and repeated support for the credit to be effective. Credit alone is not enough and calls for integrated approach with other services.
- Organising producer collectives for moving up the value chain for increasing income of the producers. Credit and insurance product to be offered together to insure against the risks for livelihoods.
- Value chain financing identified as a key component of development credit and funds are not easily accessible for supporting the value chain from formal financial institutions and even the collaterals are being insisted upon.

Policy recommendations:

- The National Rural Livelihoods Mission shall facilitate an enabling policy framework for value chain financing as a critical component of development credit. NABARD as a development financial institution, shall set up a fund, mix of debt and equity, not only for activity financing but also supporting capacity building access to markets, better availability of inputs, IT applications. NABARD shall also undertake market research studies including analyzing the commodity market movements studying the need and the gap in developing suitable infrastructure for value chain including warehouse, processing, etc.
- Commercial Banks shall come forward and develop appropriate products for different commodity based value chain so as to mainstream these financial requirements.

- In the context of SHG, special credit products including online credit loans instead of term loans, specific purpose focused credits, etc shall be evolved.

Session 3 -Topic: Social Security for poor

Chair: Mr. Trilochan Sastry, IIMB, India

Speakers:

1. Mr Chinnatataiah, SERP, Government of Andhra Pradesh
2. Mr Atiqun Nabi, Executive Director, Inafi Asia and Bangladesh
3. Ms Gayathri, People Mutuals, India
4. Mr Natu Maccwana, Sajjata sangh, India

Learnings and issues:

- Social security is a broader concept which includes insurance including mutual insurance and also pension services. Mutual insurance solutions has emerged as a flexible alternative especially for the poor in terms of addressing multiple risks. The experience of People Mutuals enabled by Dhan Foundation and the Mutual Insurance experiment through MIME approach of Inafi Bangladesh, clearly demonstrates the relevance of community based insurance based on the principle of mutuality.
- Crop insurance is an essential part of social security for smaller and marginal farmers particularly in the weather based insurance programmes as demonstrated by Sajjata Sangh and People Mutuals of Dhan Foundation.
- Systems including computers for Premium collection, maintaining the member profile and claim administration are among the critical components for the effective community based social security programme.

Policy recommendations:

- For wider insurance coverage among the poor and thereby to enlarge the financial inclusion, the social capital model emerges as the appropriate strategy for promoting and spreading micro insurance services.
- Networking SHGs into Federations would enhance the viability with increased number of members for any micro insurance initiative.

- Micro insurance mutuals require investment for promoting and to put in place the systems and IT infrastructure for effective management of the micro insurance programmes.
- Capacity building including insurance literacy of the clients has to be essential component of any micro insurance programme.
- The mainstream insurance companies should innovate and offer context specific diverse insurance solutions for the poor.

Session 4 - Topic: Migration and Remittances

Chair: Ms. Leila, Consultant, Hong Kong

Speakers:

1. Mr Marlon, INAFI Philippines, Philippines
2. Mr Rashed, INAFI Bangladesh, Bangladesh
3. Mr Md Azizul Hoque, Joint Director (HRD-HEM), Bangladesh
4. Mr Md N. Amin, Adhikar, Orissa

Learnings and issues:

- Generally, migration is on the rise to seek green pastures for better livelihoods or to escape from political and social repression so also the remittances. This brings issue of human rights, better living conditions for migrants and also the safe and secure transmit of money the migrants make in the work place.
- Feminization of international migrants especially the skilled migrants.
- High cost of remittances, lack of access to remittance services in rural areas compounded by lack of strategy to increase competition in money transfers, lack of technical capacity of MFIs.
- From the client respective three major issues identified as big savings capacity, improper fund management and poor investment decisions.

Policy recommendations:

- Remittance is an emerging service among the financial services and the commercial banks being the leading players in the remittance services, shall have an outreach programme to reach out to the

unskilled labourers and workers who constitute the bulk of poor needing such services.

- Financial literacy for migrants and their family members is quite crucial and shall be the priority for NGOs and MFIs for doing any remittance services.
- Mobile banking platform and the facilities for mobile transfer through mobile phone shall be used to the maximum extent.

Session 5 – Topic: Consumer Protection

Chair: Mr Bri Raj, DGM, RBI, India

Speakers:

1. Mr Atiqun Nabi, INAFI Asia, Bangladesh
2. Mr Emranul Haque Chowdury, Executive Director, UDDIPAN, Bangladesh
3. Mr Krishna Reddy, SA-Dhan

Learnings and issues:

- Client protection assumes greater importance in the wake of exploitation of poor by the unscrupulous microfinance institutions. The need to protect the interests of the borrowers just as the interest of the savers is equally important with literacy they are in a receiving end.
- Unfortunately, it is noted that self-regulation code is observed more in breach rather than compliance requiring tightening of the regulation framework and enforcement.
- In the light of the experience in the state of Andhra Pradesh SHGs are to be protected from the multiple loaning and high interest rate especially those who are already enjoying linkage with the Bank.

Policy recommendations:

- Strict enforcement of the rules and regulations including the interest cap and margin cap with suitable penalties and sanctions shall be in place.
- A surveillance mechanism with involvement of Lead Bank and the commercial banking system.
- Ensuring transparency through proper records and record keeping is another critical component for better protection of consumers.

Session 6 – Topic: Microfinance and Financial Inclusion

Chair: Mr. Pradeep Kulkarni, SBI, India

Speaker:

1. Mr Manjunath, SKDRDP, India
2. Mr Dhan Raj, Indian Bank, Microsate Branch
3. Mr Chanti Babu, ZEROMASS, India

Learning and Issues

- For development with dignity, financial inclusion is vital. SHGs bank linkage is considered as a largest programme for promoting financial inclusion. While BC/BF has been good facilitators for financial inclusion, there is a need for flexibility for payment of adequate fees, creation of special fund for capacity building and incentive for working in the underserved areas.
- SBI initiative under BC/BF model is comprehensive for better out reach. Viability of BC model remains a major issue for the NGOs/MFIs, as the fees for the services rendered are not covering the cost. Cash handling and movement continue to pose logistical nightmare for the NGOs/MFIs.
- The initiative of Indian Bank in opening exclusive branches for linking SHGs is quite unique and unparallel. Such approach serves the agenda of financial inclusion quite comprehensively and the SHGs have been able to access financial services without difficulties and what is more sustained for long.

Policy Recommendations

- Bank should be paying adequate compensation to NGOs/MFIs to make BC as a viable proposition.
- Capacity building of NGOs and IT infrastructure for real time transactions for being captured in the bank should be supported by the financial inclusion fund set up by Government of India / Commercial banks.

Session 7 – Topic: Microfinance and Health Programme

Chair: Dr. Rajaratnam Abel, Public Health Specialist

Speakers:

1. Mr Rajapandian, Kalanjiam Foundation-India
2. Mr A.N.Md Emam Hasanath, Executive Director, Manabik Shahjya Sangstha (MSS) Bangladesh
3. Ms Zahida Fizza Kabir, Executive Director, Sajida Foundation

Leanings and issues:

- Integrated health and microfinance programmes necessitates working with mainstream healthcare system, creation of demand for effective delivery of healthcare services by mainstream channels, and behavioural change communication strategies for sustaining interventions.
- Health shocks immediately deplete finances that members were able to gather through the microfinance program. Other factors such as death, education, disaster are also sources for major expenses. It necessitates a comprehensive health insurance package with health literacy, linkages with mainstream healthcare providers.
- Community managed health and nutrition project of SERP for the women and child and the Kalanjiam reproductive and child health project of Dhan Foundation brought to fore interesting and useful learnings for the Federations of SHGs.
- Both SERP and Dhan's initiatives had focused on participatory behavioural change communication for enhancing the health projects' objectives and outcomes.
- Addressing anaemia and nutrient deficiencies is an important component of the health programme.
- Mutual health insurance and mainstream insurance are essential components of the health programme.
- Other successful experience of microfinance being effective in promoting livelihoods among the HIV positive individuals and also in addressing the social problems of individuals who are HIV positive and in managing hospital with cost effectiveness has been presented.

- The community health programme of SAJIDA Foundation combines health insurance, health education and hospital services has been a successful experiment in Bangladesh context. Benefit reaching substantial number of people - 8,00,000/-

Policy recommendations:

- Health programme in microfinance context is quite effective with health insurance services.
- Behavioural change communication for the SHG members enhances the health literacy and thereby the participation of the clients in the health programmes.
- Linking with primary health centres provides better synergy in terms of offering out-patient and secondary care services. The need for community health care workers cannot be over emphasised and these para health professionals should be involved in health promotion, preventing health problems and also overall awareness of education about the health related issues including epidemics and infection, etc.

Session 8 - Topic: Microfinance and natural resources management

Chair: Mr. Vijay Sardana, Conduktant, India

Speakers:

1. Ms Nandini, AKRSP, India
2. Mr Gurunathan, Vayalagam Foundation, India
3. Mr A.K. M. Shirajul Islam Executive Director, BASA, Bangladesh

Leanings and issues:

- Microfinance can be used as a tool to organize the community for natural resource management especially in rehabilitating and maintaining traditional water harvesting structures such as Rivers, Ponds, Canals, Surface water and open water bodies. The short-term benefits of the water resources development include addressing the immediate water crisis faced by both humans and livestock – ensuring availability of clean drinking water. The long term impact includes greater drought preparedness of the village community.
- Timely and enhanced credit availability to the microfinance groups of farmers for the agriculture and allied activities, context specific repayment schedule (like one time payment at the time of harvest in tribal area) are very critical for sustaining farmers' livelihoods.

- Dhan Foundation's work in restoring and rehabilitation of village tanks and the water sheds has brought to the fore the importance of microfinance programme for sustainability.

Policy recommendations:

- Like SHGs of women, the natural resources management calls for organising the smaller and marginal farmers and promote their institutions. Initiating microfinance programmes in NRM provides own capital for the communities for the natural resource management and also for leveraging the funds from the banking system.
- Special investment credit products for long term to develop and manage the land and water resources such as village tanks, farm products, feeder/drainage channels shall be evolved and offered by Commercial Banks/NABARD. It can be debt based not always relying on grants.

Session 9–Topic: Microfinance and Gender Empowerment and mainstreaming

Learnings and issues:

- There has been a universal acknowledgement of contribution by microfinance in different country contexts of its contribution to the gender empowerment process and the mainstreaming.
- The empowerment process is not just confined to economic aspect but it covers social and political spheres whereby there have been structural changes.
- The leadership development at the local level which reinforces the empowerment process has come out strongly in the empowerment process. Like in Andhra Pradesh where SHG leader has made incredible journey to be a member of Legislative Council, many leaders have emerged and occupied political spaces that changes power equation and changes the gender stereo typing.
- The empowerment process is unique, in that, women clients are taking active part in the institution building process at the grassroots.

Policy recommendations:

- Social capital model of microfinance provides excellent platform for sustained empowerment process and needs mainstream support.
- Economic empowerment process happens through collectives of Self-help groups lending scale advantage and power of negotiation. The context based women rights issues is better addressed by the microfinance based work on gender empowerment.

Session 10 Topic: ICT in Microfinance

Chair: Mr. Satish babu, Trivandrum

Speakers:

1. Mr Yogesh Sawant, PEDO, India
2. Mr Chalapathy Rao, Coramondal Infotech, India
3. Mr Mahfuz Ali Quaderi, Executive Director, Anannyo Samaj Kallyan Sangostha (ASKS), Bangladesh.

Learnings and issues:

- ICT is a key technology enabler for microfinance promoting transparency and better upkeep of accounts and MIs system and therefore, is an indispensable part of MF programmes.
- The IT architecture model of PEDO, Rajasthan has proved to be useful for capturing transactions real time basis and update the data for effective monitoring. The mobile phone applications have been effectively used for transferring data from the field to the Federation office and the NGO Headquarters.
- Dhan Foundation has successfully developed a low cost software for the SHG Bank linkage and the credit operations of MFIs have been shared and its value appreciated.
- More importantly the data collected should be analysed with the IT tools and used for advancing of SHGs. As for instance, the multiple lending could be avoided with a reliable data flowing through.
- Important challenges to keep the cost low for developing the softwares for microfinance programmes for either minimalistic delivery model or holistic enabling model based on social capital.

Policy recommendations:

- The Government need to invest and support for developing reliable IT infrastructure for microfinance programmes for reliable and efficient management of the growing volumes of statistics/data and quick services to customers, clients and MIs.
- The IT industry and the NGO should work in tandem to develop software based on the open source so that cost is minimised and made affordable for the NGOs and SHGs.
- Web based applications using the mobile phone connectivity should be developed for the remote location for quick data transmission and efficient service.

Session 11 - Topic: Connecting MF and MDGs

Chair: Mr. Joseph Gloria, PRRM, Philippines

Speakers:

1. Mrs A. Umarani, Tata Dhan Academy, India
2. Mr Iqbal Ahammed, Executive Director, PADAKHEP, Bangladesh

Learnings and issues:

- Presentation of Dhan Foundation experience in India and PADAKEPH in Bangladesh has brought to fore the potential and promise of microfinance towards achieving MDGs.
- The role of microfinance through the grassroots institutions like SHGs, Village Cooperatives in localising MDGs is greatly appreciated as learnt from the experience of Dhan and PADAKHEP.
- Connecting MF and MDG is better achieved by organising the unorganised poor in an institutional framework in view of the economics of scale and viability.
- One of the key learnings is MDG cannot be achieved in isolation by any microfinance programme based on social capital model. The peoples organisations need to promote local partnership with the local bodies and other social groups for better synergy and effective implementation.

Policy recommendations:

- Microfinance programmes which are working towards connecting MF and MDGs need to receive priority attention from the Government and should be incentivised.

- A collaboration approach is the key towards achieving goals related to health and education and there must be partnerships for health and education programmes between NGOs, Governments and the private institutions to realise these goals.
- Development stakeholders should organise awareness and capacity building programmes based on the successful experiments in connecting MF and MDGs for the NGOs and the Government in the matter of localising.
- Special financing arrangements including designer financial product need to be evolved for achieving some of the targets under MDG related goals with regard to developing gender and health financing.

Session 12 - Topic: Mainstreaming Insurance to People living with HIV

Panelists:

1. Dr Parnjape, National Aids Research Institute
2. Mr Ashok Jha, USAID
3. Mr Liyaquat Ali Khan, Actuary
4. Mr K.K. Srinivasan, IRDA

Speakers:

1. Ms Saroja, State Representative of PLHIV Networks
2. Dr Ganga Khedkar, National Aids Research Institute, Pune
3. Mr Sundarrajan, Senior Branch Manager (LIC - P&Gs)
4. Ms D. Rama, Assistant Vice President, Star Health Insurance to PLHIV
5. Ms B. Sivarani, Programme Leader, Dhan Foundation
6. Ms S. Gayathri, Team Leader, People Mutuals, Dhan Foundation

Leanings and issues:

- The insurance needs of PLHIV and the vulnerability scheme based for these people has been presented.
- Health insurance for the PLHIV should offer universal coverage without exclusions and made affordable.
- The opportunistic infections are major cause of death and not HIV infection directly. The use of ART has reduced mortality and morbidity in India. However, HIV disease has become chronic disease like diabetes, hyper tension, where adherence will be most important factor.
- The PLHIV is excluded under the mainstream life and health insurance products.

- The pilot initiative of Dhan in mainstreaming of insurance of PLHIV have been brought out the following:
 - A mutual insurance covering PLHIV and vulnerable population without discrimination
 - With similar insurance benefits to PLHIV and vulnerable population
 - Involving uniform premium thus ensuring an aspect of cross subsidization
 - Affordable premium and no external subsidy to ensure sustainability
 - Risks of community covered by insurance companies – LIC (Life) and NIC (Health)
 - Mutual Solidarity Fund (Safety Net) Fund to handle claims of PLHIV and sustainability of the project
 - Insurance education to support enrollment and renewals.

Policy recommendations:

- Mortality and morbidity rates of PLHIV under ART is almost similar as non PLHIV thus indicating the insurability of PLHIV. The data available from different sources in this regard – National Family Health Survey etc. needs to be assimilated and actuarial calculations has to be done for enabling the life and health insurers to design appropriate and affordable products for them.
Dhan with its association with expert actuaries could play a vital role in this regard. A small committee has to be constituted for taking this to the next level.
- The mechanisms and processes for pooling of risks and creating large risk pool across different positive networks have to be created.
- For PLHIV life insurance, advocacy efforts need to be initiated with LIC of India taking the advantage of the favourable status of social security fund created by Government of India.
- Advocacy efforts need to be initiated for the service tax exemptions for PLHIV insurance products.
- Advocacy efforts need to be initiated to include PLHIV under the insurance cover of Government sponsored insurance programmes.

Valedictory Session:

Smt. Usha Thorat, Director, Centre for Advanced Financial Research, and Learning, Reserve Bank of India.

I thank INAFI for inviting me here today for the concluding function of the Summit. I am sure you have gained tremendously from the interactions that you have had with similar organisations within and outside India. Financial inclusion has become a global buzzword and is even on the G20 agenda. But that is a recent phenomenon while you have been working in this area for a long time. There has been a surge of 'for profit' micro finance companies in the recent past especially in this State. Based on this experience and the experience of "not for profit" form of organisations like cooperatives, SHGs, trusts and societies, I am sure there has been a healthy discussion of the pros and cons and how to get the best of both worlds.

When we look at the number of people without access to mainstream formal payments and financial services, it is apparent that the need of the hour is to scale-up. At the same time, past experience shows that scaling-up, unmindful of the needs or capacity of the household to assume this increased debt and the need to have systems within the lending agency to manage the scaled up numbers, can jeopardise the household as well as the provider of financial services. The experience in microfinance shows that there is an urgent need to sensitise employees of financial service providers to safeguard the interests of the poor with utmost integrity thereby expanding the social capital for the provider as well as expanding the trust amongst the customers.

I would like to address some issues relating to financial inclusion that are relevant in this background. Firstly, are we right in pushing commercial banks as the principal player in ensuring financial inclusion and providing a universally accessible national payments system? What is and could be the role of cooperative banks –rural and urban, regional rural banks and non banking financial institutions both for profit and not for profit? What is the role of the non-banks? What are the synergies between banks and non-banks in this context? Banks have the financial clout and the technology; non-banks have the innovativeness, the local knowledge and the last mile access. How do we mesh these two for optimising the results and achieve the objectives? What can be the various forms of partnerships between non-bank financial institutions and banks? What can be the kinds of partnerships banks and non-bank non-financial entities?

Microfinance is not financial inclusion –the latter goes much beyond micro finance. It means access to a bank account which has links to the mainstream payments system and deposit insurance. Both these are important for all citizens and especially the low income households.

Secondly, the need to create an effective and inclusive payments system that protects privacy of the consumers while concurrently enabling convenience. The Government has a huge stake in having a ubiquitous interoperable electronic payments system that could be used seamlessly for making all government payments.

The third issue I would like to raise is that of multiple lending and over lending. This requires a comprehensive credit information system where it is possible for lenders to electronically and instantaneously check the credit record of the borrower. Such a record should cover all types of payments including public utility bills. This will ensure that a conducive credit culture is developed – this is vitally needed for sustainable financial sector development.

Fourthly, it is important to redefine the manner in which one approaches the issue of risk among low-income households. Having said that reliable credit records are very important in facilitating credit flow, it is equally important to have a system to deal with adversity and natural calamities that can destroy low income household's ability to service the debt contracted by them. In addition, there is need for providing such households credit for housing and education apart from financing their livelihood or business. Health hazards, accidents and premature deaths have the potential to lead to defaults. Hence, for effective financial inclusion, a combination of financial products incorporating savings, pensions, health, crop/weather, life and accident insurance apart from a loan product is the need of the hour.

Fifthly and this is closely related to the issue of risk, is the title to property. This issue gets often ignored when we talk of collateral free loans. Many sharecroppers, marginal farmers and informal settlers in urban areas are unable to offer as security the land /property they occupy and whose usufruct they enjoy. This impedes the flow of formal sector credit to such borrowers. Hence there is a need to regularise the title to such properties –if not the title then at least some sort of recognition for their occupancy could be considered to enable them to get banks loans

Sixthly, recovery and credit discipline is important in creating a repayment culture and infusing confidence amongst lenders which alone can facilitate

greater inclusion. While most States have enacted a law to simplify the procedure for recovery of loans to priority sector, the implementation leaves a lot to be desired. Ultimately the knowledge that fresh loans will not be forthcoming until the earlier loans are repaid is the best deterrent. NGOs can play a useful role in sensitising the need for borrowing within means, making the correct financial choices for the family and making regular repayments of loans taken. NGOs could help by helping increase awareness about the mutually beneficial relationship that would accrue if the banks and the people were willing to understand each other better.

Seventh is the need for financial literacy and financial counselling. Both from the lenders and borrowers perspective this is very important. There is a very large stake for all concerned- the government, the regulators, the financial services providers and the customer and the NGOs. The initiative can be taken by anybody but all should join in the efforts.

Finally, I want to touch upon the sensitive issue of interest rates. A lot has been said about the return covering all costs including cost of capital, cost of funds, risk premium and transaction cost. It is also acknowledged that the transaction cost for a loan of Rs 10000 is double that for a loan of Rs 20,000. The interest rates for SHG members are set by the group and are not regulated. Generally the rates would vary from 25 to 30 per cent. Following Malegam committee recommendations, the maximum rate of interest that MFIs can charge has been set at 26 per cent. In 2010, RBI deregulated interest rates on priority sector loans. Banks can actually lend at much lower rates than SHGs or MFIs as their cost of funds is lower and they can reduce the transaction costs by using BCs.

To conclude, it is important to recognise that financial inclusion goes beyond micro finance. It means access to bank accounts, payments system and deposit insurance, in addition to access to savings, insurance, loans and capital market products. As part of the eco-system in providing an enabling environment for effective financial inclusion, I have stressed upon the relationship and partnerships between banks and non banks for ensuring efficient delivery mechanism especially for providing access to deposit insurance, the role of an ubiquitous interoperable payments system, the need for effective credit information system, conducive credit culture, financial literacy and counseling and finally the issue of reasonable interest rates that provide banks with a business model while ensuring quick and hassle free availability. There is a very important role for NGOs and

community based organisations such as yours in this national endeavour and I wish you all the best.

Shri Rajsekhar, CEO, SERP, Government of Andhra Pradesh

The decade long journey of SERP in addressing poverty through SHGs and its supra institutions coupled with multiple development interventions and initiatives have been presented by Mr Rajsekhar, CEO, SERP. He highlighted the outcome of SERP interventions particularly in developing the social capital in terms of institution building and leveraging for health, education and insurance initiatives. He also elaborated on the outcome and impact of the SERP interventions with regard to the Bank linkage, dairying as a sustainable livelihood activity, primary education for 20,000 students in thousand early childhood Education Centres, addressing disability, furthermore, in increasing the income by Rs.5000 to Rs.15000 per family. He also stated that SERP has emerged as a national resource agency for NRLM with its vast pool of community resource persons and knowledge bank.

Shri Karthik Muralidharan, Consultant, shared about the study made with regard to the savings in the context of Kenya and India.

Professor Gary Field, Cornell University, USA, talked about the Mexican experience of COMPATAMOS and stressed the importance of sustainability.

The conference came out with the following declarations.

1. The purpose of microfinance being poverty reduction, development outcome connecting with Millennium Development Goals, ensuring social security and entitlements should be guiding the provision of microfinance services.
2. The institutions delivering micro-credit shall be recognised as MCIs i.e. Micro Credit Institutions and not as MFIs as it gives rise to misleading expectations and undue advantages. The summit recognises the need to develop appropriate nomenclature for microfinance with inclusive development.
3. The social capital model of microfinance shall focus on building institutions founded on mutuality and solidarity, specifically federations of SHGs, and specialised institutions on health, education, livelihood for technical support to SHGs.

4. Microfinance shall go beyond credit and shall include 'Savings-first' approach with differentiated savings products for livelihood, health, education and life cycle needs; insurance and micro pension for social security, remittance services for migrants, micro justice for conflict resolution.
5. Holistic development approach with social and financial intermediation, livelihoods / enterprise promotion, integration with mainstream for civic intermediation with proper sequencing, graduation, context and member specific interventions shall guide the microfinance programmes.
6. Microfinance interventions shall be integrated into sub-sector economic development process such as agriculture, farming, dairy, fisheries, etc.
7. Capacity building of the enabling and demand stream is a crucial component of microfinance interventions and needs continuous public investment.
8. Self-regulation process shall be a part of the microfinance programmes, which would promote growth with quality. The SHG Federations shall draw a road map and set standards for governance, financial and social development aspects according to their age and contexts and evolve action plans for implementation.
9. In building livelihoods systems, community ownership in the form of producer and marketing companies with professional management shall be promoted with innovative and appropriate credit products. Value-supply chain needs public investment for infrastructure like cold-chain, transport & processing.
10. Gender empowerment and mainstreaming shall remain the core of the microfinance programmes.
11. Highly vulnerable groups including Destitute, aged, physically and mentally challenged shall be organised with the help of microfinance exclusively with higher degree of sensitivity and innovation.
12. Mainstreaming microfinance through linkages with the banking system shall promote financial inclusion to provide access with affordability for the poor. The banking system shall respond to the microfinance clients with timely credit and appropriate financial products.

Summary of recommendations

1. The summit recognizes the two decades of SHG programme and its significant contribution in connecting poor with banking system facilitating savings and beyond microfinance addressing the social development issues.

SHGs have demonstrated the potential and provide enabling space for sustainable livelihoods, connecting with and achieving MDGs, much larger and deeper empowerment process. Considering the remarkable development work of SHG programme, the Summit commends primacy and priority for promoting, strengthening and advancing SHGs and its Federations, in the national poverty alleviation strategy, for not only access to financial services but to reap larger development dividends in addressing poverty.

2. Microfinance has been conceived as development instrument for poverty reduction, the development outcome connecting with millennium development goals, ensuring social security and entitlement should be guiding the provisions of microfinance services. While microfinance is not a charity, it is not pure commercial business. It should be a business with compassion duly considering the state of target groups and the purpose. Holistic development approach with social and financial intermediation, livelihoods / enterprise promotion, integration with mainstream for civic intermediation with proper sequencing, graduation, context and member specific interventions shall guide the microfinance programmes.

3. The social capital model of microfinance should get the primacy and the priority attention in the development process as it provides immense scope and potential for multiple development interventions. The social capital model of microfinance shall focus on building institutions founded on mutuality and solidarity, specifically federations of SHGs, and specialised institutions on health, education, livelihood for technical support to SHGs.

4. The microfinance programme which leverages social capital for larger development work shall get special support and incentives from the mainstream institutions including Government and Commercial Banks. The SHG development fund set up by Government of India should reach out through NABARD and Commercial Banks for promoting and nurturing Self-help Groups and networking them as Federations.

4. Microfinance programmes shall endeavour to deliver financial services at their place for encouraging maximum participation and sustaining the access to financial services over long haul.

5. Microfinance shall go beyond credit and shall include 'Savings-first' approach with differentiated savings products for livelihood, health, education and life cycle needs; insurance and micro pension for social security, remittance services for migrants, micro justice for conflict resolution.

6. Keeping in view the special features of micro insurance services being number of clients and cost aspects, special purpose people institutions needs to be promoted for viable and sustainable delivery of micro insurance services to the poor. Similar need based institutions shall be established for credit, etc.

7. Leveraging the social capital of microfinance programmes, the priority shall be for integrating Livelihood promotion into microfinance programmes with focus on sub sector economic development such as farming, dairy and fisheries.

8. In building livelihoods systems in connecting the poor with technologies and markets, community ownership in the form of producer and marketing companies with professional management shall be promoted with innovative and appropriate credit products.

9. The summit calls for public investment **for capacity building for enabling and demand streams with adequate grant and soft funds support** and in creating livelihood common infrastructures (cold chain, transport, processing etc.,) that support value and supply chains, ICT infrastructures etc.

10. With a view to support the community owned and managed microfinance programmes, enabling legal framework shall be in place for facilitating robust growth of the people institutions. Some of the areas where legislative support is required in terms of income tax and service tax provisions, etc. are listed hereunder:

- Like Banks, NPO-MFIs should enjoy general exemption from the provisions of money lending laws.
- If an entity is treated as charitable under the Income Tax Act or is licensed under section 25 of the Companies Act, Service Tax should not apply. Uniform definition of charity is to be applied.
- Foreign Contribution (Regulation) Act, 2010 - SHGs are beneficiaries. So are the Federations of the SHGs. Contributions to SHGs and Federations of SHGs should be treated as utilisation. Specific reporting may be sought. Prior approval is to be specifically dispensed with.
- Income Tax Act – The proviso targets only the residuary limb. Educational institutions and hospitals charge for their services. How can NPO-MFIs not charge the borrowers? As long as the activity is one of poverty relief, Section 12AA and exemption should apply to NPO-

MFIs. The law is clear but its administration is the problem. CBDT could clarify the issue of NPO-MFIs through a circular.

- Direct Taxes Code – Activities to alleviate poverty whether by NPO-MFIs or Federations of SHGs should be charitable purpose. Federations of SHGs work for their members for specific reasons like peer pressure, homogeneity, geographical proximity etc. These are not commercial associations seeking to promote the commercial business interest of their members. The provision is to be dropped.
- The RBI – Loans to Federations of SHGs should be permitted without limit. The purpose is not to be specified in the notification. Repayment of high cost loans will contribute as much to the welfare of the poor as running a business enterprise.
- Mutual Associations – A separate law governing mutual association or a separate chapter under the Companies Act like on producer companies is essential. The law /provision should cover definition, characteristics, rights, liabilities, exemptions and governance. This is more urgently required due to the proposed DTC excluding them from the purview of NPOs. Mutual associations of the poor should be exempt. Mutual Associations of the poor fulfilling definite criteria should be exempt from income tax.

11. Consumer protection is an important and indispensable element of the good microfinance eco system, whereby safety and security of savings of the poor preventing exploitation of the borrowing clientele, and those availing micro insurance and remittances, etc. should be the role of enabling and supply stream and their responsibilities need to be delineated and internalised.

12. Self-regulation process shall be a part of the microfinance programmes, which would promote growth with quality. The SHG Federations shall draw a road map and set standards for governance, financial and social development aspects according to their age and contexts and evolve action plans for implementation.

13. Gender empowerment and mainstreaming shall remain the core of the microfinance programmes with primary focus on social and economic aspects.

14. Mainstreaming microfinance through linkages with the banking system shall promote financial inclusion to provide access with affordability for the poor. The banking system shall respond to the microfinance clients with timely credit and appropriate financial products.