

REACHING THE HARD TO REACH:

Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas

Case Study

Primary Agricultural Credit Society Linkage, India: The Best Remote Rural Self-Help Groups Can Do?



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**Primary Agricultural Credit Society Linkage, India:
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Primary Agricultural Credit Society Linkage, India: The Best Remote Rural Self-help Groups Can Do? ¹

Executive Summary

Models linking community-based associations with financial institutions have tremendous potential to expand outreach in remote areas. Associations in many forms (ASCAs, Self-Help Groups, savings and credit associations, even farmer or fisher associations) already have a strong presence in rural areas. They provide convenient and flexible access for members in light of few or no alternatives. Linkages can provide these associations with additional value such as access to larger loans, a safe place for savings and the potential for a broader range of services including graduation to individual member services.

Self-Help Groups came to be recognized as bank clients under a pilot project of the rural apex bank—National Bank of Agriculture and Rural Development (NABARD), in India. This was ground-breaking policy as groups or associations in many countries cannot legally be considered clients or members. Now, India boasts one of the most inclusive rural financial systems in the world. The program started in 1992 and by March 2007, there were 2.9 million bank-linked SHGs and over 40 million households. Linkages exist with a range of financial institutions including commercial banks, Regional Rural Banks and cooperatives. This case examines a linkage between two member-owned institutions: Thrift and credit associations called Self-Help Groups (SHGs), and government-promoted credit cooperatives called Primary Agriculture Credit Societies (PACS). This linkage extends the already-rural cooperatives broader and deeper by bringing in a massive network of rural women's groups. When combined with the grid of institutions like the cooperative system, the model has the potential to reach virtually every village in India.

Issues still persist. Most linked SHGs are concentrated in the south of India and only an estimated half of the SHG members are poor. Governance is also tricky since SHGs are only considered nominal members. Therefore, their ability to influence the PACS in their favour is limited. Some of the flexibility they have as an unlinked SHG can be lost as the PACS compete for their internal savings or liquidity.

Nevertheless, the relative success of the West Bengal experience shows that this model has potential for remote outreach. The PACS-SHG linkage has broader potential rural reach than any other linkage model. From the cooperative society perspective, SHGs offer a viable membership base and a cheap and growing source

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of funds. SHG savings comprise nearly a quarter of their asset base. SHGs also show much higher repayment rates than individual members of the PACS. The SHG as a product line is both attractive and financially feasible. It is the PACS viability that limits the model. From the remote SHG perspective, it is the best option in limited circumstances. SHG members trust PACS given their proximity, accessibility, the knowledge of local staff, and the apparent security of savings. However, they identify ownership more closely with their own SHGs that offer important additional product flexibility and liquidity. Mature SHGs are more likely to find alternatives attractive as well. In short, the SHG-PACS linkage is a strong starting point for remote outreach. PACS need to be stronger financial intermediaries in their own right to provide a linkage model that can scale up and serve remote groups over the long run. If they are to maintain their SHG members groups, SHGs need to be treated as members with flexible, relevant services and full membership rights and decision-making influence.

Context and Case Selection

The National Context

Over 72% of India's 1.02 billion strong population lives in rural areas (Census of India, 2001). Co-operatives, Commercial Banks (both private and state-owned) and Regional Rural Banks (RRBs) are the three main agencies serving the short term credit needs of this vast population. In terms of a physical network, India has one of the most pervasive financial sectors in the world including over 32,000 rural branches of commercial banks and RRBs, 14,000 cooperative bank branches, 112,609 Primary Agricultural Credit Societies (PACS), approximately 1,000 microfinance institutions (MFIs), a large post office network with 154,000 only focused on deposit mobilization and 2.9 million Self-Help Groups (SHGs). Policy and financial liberalization contributed to this outreach. "Between bank nationalization in 1969 and the onset of financial liberalization in 1990, bank branches were opened in over 30,000 rural locations which had no prior presence of commercial banks" (Burgess & Pande, 2005). Policies introduced in the 1990s specifically required financial institutions to expand coverage to underserved areas such as the 1.4 license rule and the Service Area Approach, now both ended. These initiatives had a significant effect on expanding branch coverage of rural especially remote un-banked areas. Further, all scheduled commercial banks are required to purvey 40% of net bank credit to designated priority sectors, and general insurance agencies in India are required to source 5% of their gross premium within three years of operations from rural areas (2% in the first year).

However, the Government of India (2003) reveals a downward trend in the share of institutional agencies in total rural indebtedness from 64% in 1991 to 57% in 2002, while the share of moneylenders has increased from 17.5% to 29.6%. About 48% of all rural households, 51% of farm households, and 78% of rural non-farm households do not have access to banking services. And of the estimated 58 million enterprises in the country as of March 2007, a preponderant number is without institutional credit support (EPW Research Foundation, 2007).

Cooperatives and much later, the Self Help Groups Bank Linkage Program were major initiatives aimed to address the persistent financial exclusion in India. PACS (institutionalized and regulated) and SHGs (decentralized and informal) are arguably the most rural and numerous financial organizations in India. EDA Rural Systems & APMAS (2006) found that 51% of members in the sample were poor in terms of the first two of four wealth ranking categories defined by the study (the “very poor” constituted 15%, the “poor” 36%, the “borderline poor” 32% and the “non poor” 17 %). At 55 %, the proportion of SCs/STs in the sample is higher than for the country as a whole, and that of widows 10%, about the same as the All India figure. The finding that the poor constitute about half of total SHG membership is in keeping with findings from other studies.

Until recently, SHGs and PACS have occupied very different spaces in the rural financial market. PACS membership is almost entirely male while more than 90% of SHG members are women (NABARD, 2007). An average PACS has over 1,000 members, while an SHG will have at most 20 members. Credit for agricultural purposes still forms the major portion (55%) of PACS loan portfolio (Government of India, 2005) while SHGs lend for more diverse purposes including consumption. Linking the two involves the challenging task of bringing together two very distinct kinds of member-owned institutions (MOIs). There are a wide range of rural financial institutions for SHGs to link with, but linkage with PACS enables populations in remote rural areas to access financial services from what they perceive as a trusted and local source. Women in such areas can obtain larger and cheaper loans than what their local moneylender or even SHGs can provide, and a larger proportion of extreme poor households get credit and savings services. This linkage offers the opportunity to create a vast network of rural MOIs to further broaden and deepen rural financial outreach. It enables PACS to reach down further into rural areas without incurring high transaction costs and at the same time to diversify away from agricultural loans which have historically been high risk for the cooperative sector.

PACS are short-term co-operative credit institutions and are part of a three-tier rural credit cooperative system with PACS at the village level, federated into District Central Cooperative Banks (DCCBs) at the district level, and State Cooperative Banks at the state level. PACS are members of the DCCB which, in turn, are members of the State Cooperative Bank. Other cooperatives that are members of DCCBs include handloom weavers and fisherfolk. The first real push for cooperatives in India was made by the Indian Famine Commission of 1901 which recommended taking cheap credit to India’s farmers based on a model developed by Friedrich Raiffeisen, a German provincial politician and social reformer. The first Cooperative Law of India was enacted by the British in 1904. The law referred only to credit cooperatives and was repealed by a new law to cover all kinds of cooperatives in 1912. Later administrative reforms in 1919 gave powers to provinces/states to enact their own cooperative laws. These initiatives enabled the formation of as many as 100,000 cooperatives within the first 25 years of the history of cooperatives in the sub continent.

The current system is the result of over a century of policy and regulatory shifts aimed at taking cheap credit to rural, especially agricultural households. Due to the poor performance of credit cooperatives, the policy focus until 1990 was on heavy government involvement to control the vast network's governance and management risks. A recent study (Government of India, 2006) notes that only around 60% of the PACS are viable. More recently, in recognition of the spread and depth of outreach of PACSs, far reaching changes are upcoming for this system that show promise for the PACS as a viable rural financial institution. Appendix A lists a few of these recommendations.

Indeed, commercial banks are the main competitors for PACS for agricultural lending, outperforming them in terms of market share—commercial banks with 67%, and cooperative banks 23%, as of March 2006 (NABARD, 2005-06). They are also the key competition for SHG linkage with over 1.1 million SHGs (Harper, et al., 2004). Similarly, RRBs currently have more SHGs (over 740,000) linked than cooperatives that stand at 307,543. The number of SHGs linked to cooperatives as a percentage of overall linkage has been steadily increasing. In 2001, this was only 4.84% (Berkhoff, 2003), and by March 2006 had increased to 13% (NABARD, 2006). In terms of numbers of SHGs linked in the year 2006 as a percentage of cumulative performance, the cooperatives overtake both RRBs and commercial banks (Figure 1).

Linkage between cooperatives and SHGs started relatively late in India. Linkage between the Cooperative Credit Structure (CCS) and SHGs can take place through any of the two lower tiers of the system—but is largely with the PACS. Data from NABARD is available through the DCCB level, but includes linkage figures of both DCCB and PACS linked groups.

Figure 1: SHG Linkage Status of Different Rural Financial Institutions

	DCCBs	RRBs	Commercial Banks (PSBs and Pvt. sector)
Cumulative no. of SHGs provided with Loan, Mar 2006	307,543	740,024	1,188,040
Cumulative Loan disbursed up to Mar 2006	US\$251 million	US\$772 million	US\$1,624 million
No. of SHG provided with Loan between Apr 2005 and Mar 2006	96,406	176,178	344,567
As % of cumulative performance	31%	23%	29%
Loan Disbursed between Apr 2005 and Mar 2006	US\$102 million	US\$284 million	US\$657 million
As % of cumulative performance	40%	36%	40%

NABARD, 2006

While the bank linkage program supported by NABARD was initiated in 1992, its early focus was mostly on scheduled commercial banks (Harper, et al., 2004). However the potential that the SHG-CCS linkage offered both in terms of complementarities for breadth and length of outreach for PACS was recognized by the apex bank which has been actively supporting District Central Cooperative

Banks (DCCBs) and PACS in their linkage with SHGs, providing refinancing, supervision and training grants.

PACS have a much greater potential reach than any other kind of formal financial institution in rural areas on a national scale. With over 100,000 PACS, there is one credit cooperative for every six of India's villages with approximately 135 million members. Commercial banks have only a quarter of this number of outlets. Even if we consider that approximately 40% of the PACS are not viable, the outreach is more impressive than that of commercial banks.

Cooperatives also have a much deeper reach with nearly four times the number of accounts than commercial (public sector) banks, and PACS loans are on average one-fifth the value of commercial banks US\$154 compared with US\$735. In a country dominated by small or marginal land holdings, the reach of the cooperative system is much deeper than the other institutional arrangements in the rural areas" (Government of India, 2005). The coverage of rural areas and depth of outreach of PACS even outperforms RRBs, introduced in 1975 by a special act to extend access to financial services in rural areas.

Figure 2: Comparative Coverage of Rural Markets by RRBs and Cooperatives

	RRBs	Cooperative banks (mainly via PACS)
Number	196	397
Total deposit balances (US\$ billion)	10	21
Total credit outstanding (US\$ billion)	4.27	19.13
Credit in rural areas, % of total credit	72%	100%
Credit in 'small' rural accounts (loans less than US\$4,200), % of total outstanding credit	65%	>90%*

Notes: All figures are for March 2002, except for information related to cooperative banks and the share of rural bank business (last two rows) where March 2001 data is presented; * authors' estimate. RBI (2001; 2002a) in Sinha, et al., (2003).

Despite the fact that much of the membership is dormant or in moribund societies and, usually, mainly or even only men, its borrowers still total over 50 million, which is significant. Also membership figures indicate depth with almost 30% of the membership base of the societies and 20% of their borrowers being from India's most disadvantaged social classes, a much larger percentage than either RRBs or commercial banks.

The question remains, however, whether this makes PACS the best option for SHGs in remote areas. Do PACS meet the needs of SHGs in terms of liquidity, cost, and proximity? Given that linkage entails SHGs placing deposits with the PACS, are they a secure source for such a service and are they financially sustainable? What additional value does the PACS add to other linkage options because of its particular institutional structure, ownership and governance? Finally what bearing does regulation and supervision have on the above issues? The in-depth study of a relatively well performing PACS in a remote area in West Bengal has been used to answer these questions in following sections.

Figure 3: Primary Agricultural Credit Societies (PACS) - Membership

Item as at end March	2002	2003	2004
No. of Societies	98000	112000	106000
<i>All Following figures in millions</i>			
Total Membership	102.14	123.55	135.41
Of which			
a) Scheduled Caste	13.73	33.18	30.61
b) Scheduled Tribe	10.06	12.02	11.89
Total No. of Borrowers (%)	55.55	63.88	51.27
Of which			
a) Scheduled Caste	7.36 (13.2%)	11.5 (18%)	6.49 (12%)
b) Scheduled Tribe	4.1 (7.3%)	8.07 (13%)	3.44 (6.7%)

NAFSCOB

The Local Context

Of the states which have been front runners in SHG Bank linkage, West Bengal made early and significant progress. Outside of South India, specifically the state of Karnataka, West Bengal has the largest numbers of cooperative linked SHGs, attributed to political support for cooperatives in that state (Harper, et al., 2004). In fact, the DCCB which accounts for the highest cumulative and second highest current linkages with SHGs in the country, is in West Bengal (Hooghly DCCB).

In this context, West Bengal's SHGs may in fact be facing a unique issue. Communist Party of India (Marxist) volunteers have played a key role in promotion of groups as also functions such as bookkeeping, reporting etc. (Harper, et al., 2004). In less remote groups, we found our own interactions with the groups were attended by CPI(M) volunteers. In cases, such as the Bararanga PACS currently under review this influence is less either because of the extreme remoteness of the area, or the relatively small numbers of SHGs promoted here. While the intervention is helpful from the viewpoint of scaling up as the SHG movement gathers momentum a possible risk is that the party may well want to extend influence on the groups which can form a significant vote bank. At a general level, different kinds of cooperatives in India, including PACS themselves, have suffered at least as much if not more than they have gained whenever political interests (Iyer, 2005) have intersected with institutional autonomy and member control.

Approximately 45% of the SHGs in the state are linked to cooperatives well above the percentage of market share at the national level. In general, the health of the cooperative sector here is fairly good with West Bengal being one of five top performers in terms of percentage of PACS in profits (2002 data, See Government of India, 2005).

A key feature which makes for an enabling environment for SHG linkage in West Bengal is that it allows for primaries to be groups that are not registered as societies or cooperatives (i.e. SHGs can be members of cooperatives). This offers some

interesting advantages (see section on Ownership and Governance) at least one of which is an opportunity for SHGs to be registered entities.

Case Selection

Since the focus of the study was on the outreach of MOIs in remote rural areas and in particular those areas with a high proportion of poor households, the district of Purulia was selected for study of the PACS SHG linkage, despite the fact that within the state it is an average performer in terms of scaling up of SHGs. It is a remote district, on a land-locked border of West Bengal and was transferred as an afterthought from the neighbouring state of Bihar. It is perhaps indicative of how relational and subjective the definition of remote is that despite its seemingly central location on the map, locals from both West Bengal and Bihar consider it one of the most remote and backward districts in the region.

Figure 4: Map of West Bengal, Purulia (District) & Manbazaar II Block



Within Purulia Manbazaar II is a border block (one of 20 administrative subdivisions of the district) with 52% of its population belonging to Scheduled Tribes. It is an entirely rural block with a population of 85,253 (Census of India, 2001). Bararanga PACS is located in the Manbazaar II block, in a village 7 km away from the permanent road and 30 km away from the agricultural market. We requested the PACS staff to list what were the more remote areas even within Manbazaar II. Through this we were able to ascertain that nearly 70% of its 1,382 members and 75% of its SHGs live in the most remote areas of the block. 80% of the population in the area of the PACS is tribal and backward (tribal being approximately 60%).

Households here are largely dependent on agriculture and follow mono-cropping (mostly paddy cultivation between April and August). In addition to paddy, some households (especially women) in Bararanga block have begun to cultivate *sabai* grass (used to make rope and baskets) and vegetables to supplement the family income.

For those without any land the options are agricultural labour and stone crushing. Seasonal migration is a common livelihood strategy, especially amongst tribal households.

Methodology

The intention of the research was to help answer some questions about different types of MOIs: What potential they have for depth, breadth, scope, length, worth and cost of remote outreach. Remote is defined as un-served or under-served in its own market. The second level of analysis examined how outreach was affected by three areas: Networking and linkages; governance and ownership; and regulation and supervision. The perspective of analysis was from the lowest tier association, SACCO or set of groups including the relative value of various providers of inputs and supports including finance. See Appendix C for research definitions and general case methodology.

In this case, two weeks of field research were conducted on the 85 SHGs linked to the Bararanga PACS. Outreach was measured in terms of Schreiner's (1998) six aspects: breadth, depth, cost, worth, length, scope. Financial and outreach data covered the district PACS level using researcher assessment against audited statements. Eleven of the most remote SHGs were selected for more in-depth focus group discussions and mapping exercises, particularly on the worth/demand of alternative financial services and ownership. Key informant interviews were held with key PACS staff, regulators and the second-tier cooperative structure. One of the first and in fact, only comprehensive studies on PACS-SHG linkage made on the centenary of the cooperative movement in India (Harper, et al., 2004) looked at ten DCCBs and a sample of related PACS to provide wide ranging information on the trade offs for SHGs and PACS in linkage. The current study attempts to deepen this understanding through the analysis of a bounded case.

Member-Owned Institution Remote Outreach

Breadth of Outreach

Box 1 PACS staff reflections:

"We promote all groups ourselves. We have seen PRADAN's work in other blocks in Purulia with other PACS and are also supported by NABARD in promotional efforts. But no NGOs were available in this block for SHG promotion. We sit with the groups and tell them about the concept of SHGs, we have to visit them regularly at least for the first 3-4 meetings and then join them from time to time to help update their books. But they are so close by, and they spend time here in the branch and if they have any questions we solve them then and there. Our timing is so flexible there is someone at the branch all day, I (the secretary), live right next door. We have taken care to not count SGSY* groups in our total number as those groups are not active and have only been formed for the purpose of taking loans. The husbands of women members of SGSY groups will tell them to form a group, they take the loan themselves and then do not repay. The group disbands, does not meet regularly. That makes our performance look weak so we don't count these groups at all.

We think SHGs are important because even though there is a universal membership policy for cooperative banks in West Bengal, the quality of membership is poor. Members do not save at all. If you see many of the accounts still have the Rs 1/- deposit that they make 'just in name'. But SHGs save regularly and repay loans on time. They are all in this small local area, and do not have access to any bank so our relationship is informal. Much more informal than with a bank. I (the manager) have met these people, seen their children grow up. It is different with the banks. The bank is considered an organization for the rich, something too big for small people. PACS is small, informal. Sometimes they can come to my house late in the evening and demand a loan and I have to give it. They only receive the loan after being rated but we do not rate them regularly because that is a big exercise and we are few. So we only rate them when they ask for a loan especially a big loan. But we are the ones who help to update the books. They come to us every now and then to take our help. So we know if their savings and loan repayments are regular."

*Swarna Jayanti Gram Swarozgar Yojana is a Government of India credit cum subsidy scheme aimed at providing self-employment through microenterprises for rural people living under the poverty line.

Given the above context and NABARD's promotional support, it is perhaps not surprising that even a remote and poor district such as Purulia is seeing strong growth rates in SHG linkage. Of the 1,400 households in the local population, 98% are members of the Bararanga PACS due to the state government's policy of universal membership. More than 55% of the population are savers with the PACS and 27% are borrowers. At the time of study, there were 85 SHGs linked with over 16,000 members, largely female (not including SGSY groups).

This growth is reflected at the DCCB level. The SHG savings portfolio is growing at nearly 70% (average growth rate between years 2004-2006), while loans disbursed are growing at a rate of nearly 47%. Earlier heavy promotion of groups led to growth but poor recovery rates. These have improved since the Purulia Central Cooperative Bank began focusing on consolidating growth. This strategy has helped in lowering default rates, which were greater in the year of high growth and have improved at a lower growth level. Conversations with staff revealed that increasingly the PACS focus has been to contain risks of a fast growing loan portfolio by stepping up the emphasis on recoveries rather than forming new groups. At the same time they attempted to work on the ratings system. At their level, they have not yet found it possible to bifurcate reporting on SGSY and other groups, mainly because not all PACS follow the Bararanga pattern.

Figure 5: Purulia District Central Cooperative Bank: Status of SHG linkage

As on 31 March	2004	2005	2006	Average growth (%)
No. of SHGs savings linked	618	1,076	1,326	48.5 ↑
Total no. of Members	7,044	13,221	16,067	54.2 ↑
Savings mobilized (in \$ thousands)	32.6	66.5	89.3	68.0 ↑
No. of SHGs credit linked	235	287	341	20.4 ↑
Total no. of borrowers	3,305	3,504	4,310	14.5 ↑
Loan disbursed (in \$ thousands)	82.6	141	173	46.6 ↑
% of recovery	60%	60%	82%	Mean = 67.0

Purulia Central Cooperative Bank, 2006

Depth of Outreach

Box 2 Staff reflections:

“We cannot be too deliberate about who to include who not to include in the groups. It is the choice of the villagers—they decide how they will form into groups. But we are seeing over time that the rich and middle class are just not interested. It is the poor and the very poor who come forward. We only encourage that as far as possible groups should have members from the same status of households. NABARD encourages same caste groups. But it is not possible to be very consistent because sometimes when the first groups are formed and they are short of members from their own caste then the other caste women join it. It is the same with women of different economic status. Also in those areas where there is a lack of arable land these lines are blurred. In Namopara (a hamlet in one of the sample villages) tribals and mahatos, who would traditionally be considered of different economic and caste status, are now both working as stone cutters. They are all poor. We understand these things so we let the members decide as and when the group is being formed”.

SHG Members from Sonkura Village:

(Member of male SHG): “In this village the biggest problem is not being able to have latrines. The village road is so bad the delivery truck cannot come here. It is too heavy, it will get stuck. Government officials refuse to come here. It does not matter if you are rich you may have a radio, TV but still no latrines. But the PACS manager has been coming to talk about SHGs and Kisan Credit Cards. We still cannot get Kisan Credit Cards. Ask the manager why? But at least we have SHGs. The PACS has done good work in promoting SHGs, otherwise who comes to visit us?”

(Member of female groups): “For the first time we can get loans. Earlier we did not know what the PACS was. But then they started helping us form the group. We try to be regular in savings. Whoever can save joins whenever there is an opportunity. If we say savings have to be very regular, on the same day and no delays, the very poor will not come forward. Yes it is difficult for very poor to save, all the four groups are predominantly poor or middle class, but gradually they the very poor are also joining the groups. We tell them to save what they can. They have also recently formed their own group. The saving amount is lower for them. SHG is also doing the same thing a PACS does, but PACS is much larger, has more money can give bigger loans and we can only use PACS service through SHG because we don’t have land.”

Note: The Kisan Credit Card (KCC) offers a revolving cash credit facility to farmers with unlimited withdrawals and repayments. Credit limits for the KCC are based on operational land holding, cropping pattern and scale.

Bararanga PACS in Purulia is located near the border of another extremely poor district—Bankura Purulia itself is the poorest district in West Bengal (lowest per capita income) and in fact one of the poorest in India with 43% of families living below the poverty line (Government of India, 2004). There are 130 PACSs in the district. Households here are largely dependent on agriculture and follow mono-cropping (mostly paddy cultivation).

Of the local population, 80% is tribal and scheduled castes. Interestingly, the SHG linkage has not only increased the percentage of poor women in membership, it has caused an increase in the number of individual women in the general membership as

well. In most cases, these were women relatively better off with land in their own name, who were too rich for the SHGs but who got the idea of being members of the PACS from the SHG women. This also no doubt has much to do with PACS staff getting used to bringing new constituencies into their membership.

Wealth ranking exercises with randomly selected groups in the PACS's area indicated a 20–50% presence of extremely poor clients in 70% of the groups. This would seem to indicate that the representation of very poor households in SHGs is more than proportionate to their presence in the overall village population as the percentage of extreme poor households in the overall population of the selected villages (Darkidowa and Sonkura) was 10-15%. The remaining groups were either entirely made up of extremely poor households or entirely middle class. Officials said that promoting group growth was costly in these remote areas due to the extreme poverty, low density of population and high migration. These rates are typical. At the national level it is estimated that only around 50% of members of SHGs are poor and indeed a very limited number are very poor (EDA Rural Systems & APMAS, 2006).

Length of Outreach

For the PACS and the system in general, the linkage is clearly attractive. Compared to the overall performance of the PACS, the SHG portfolio comprising 85 savings linked SHGs is particularly well performing. The repayment rate of 90% from SHGs is considerably higher than the 60% repayment rate for the PACS overall as is the 82% for DCCB SHG portfolio higher than its 57% overall repayment rate. See Appendix D for a summary of key financial ratios.

Operational Self Sufficiency is 97% despite the low number and low growth rates in the SHG program—largely because of the low costs, especially personnel costs that the PACS incurs to promote and maintain SHGs. To calculate operational expenses assumptions were made on the basis of personnel days expended by staff involved in the SHG program over one year to SHGs. Travel and administrative costs were calculated proportionate to the percentage of SHG loans in the overall loan portfolio of the banks. Typically the highest investments are made just before March (financial year end) in promoting new groups as also on follow ups for repayments. However this PACS also incurs higher costs around the months of June-July when farmers require short-term (12-15 months) credit, and December when the general recovery drive and loan disbursements are on—which helps to mitigate travel costs of SHG promotion. Paddy is cut in November, but because of the poverty in the area they sell the paddy quickly in December rather than keeping it until cultivation season when they can get a better price for it.

Operational expense ratio is a low 1%. Low personnel costs help keep operational costs low. Annual salaries (such as \$222 for the senior manager) do not attract the best local talent—which in remote areas is limited in any case. To some extent, cost control at the expense of quality services and appropriate risk management is keeping the PACS afloat. The medium-term impact of cost cutting is likely to be on quality of the groups.

As a new asset class, the SHGs help to balance some of the risks of a portfolio largely comprising agriculture loans. Further, SHG deposits in the Bararanga PACSs are growing at a rate of around 100% per annum. This has nearly doubled the PACS outreach. SHG savings now form 25% of the PACS' deposit base, a cheap source of funds for the system and critical for the system's liquidity shortages. The funds are cheap and overall the expense ratio for the SHG product line is fairly low. While this PACS and the Purulia DCCB are eligible for NABARD refinance, the DCCB itself is promoting a 'deposit mobilization drive' amongst PACS in the region.

On the face of it, the Bararanga PACS is performing well. The PACS which is a 'C' grade PACS is operationally sustainable at 99%, and the SHG "product line" is well-performing and financially feasible. In selecting the PACS with high SHG linkage we found no direct relationship between audit grade of the PACS and breadth of SHG outreach. For the first time in 30 years (since its registration in 1976) the PACS is in profits. But it has yet to write-off accumulated losses, and as a system PACS (as many as 40%) are not really viable to date. Additionally since PACS were essentially viewed as credit dispensation agencies within the system, there is more of a credit culture than savings mobilization within the PACS. These factors along with the lack of deposit guarantees in the case of societies (not including cooperatives registered as banks) makes for an institution not inherently well suited to deposit taking.

Interest rates for the PACS are still low. With an 11% financial cost ratio, interest rates need to be much higher than current levels, which range from 10% (for agriculture loans) to 12% (for SHG loans), in order to provide the necessary margins. However despite liberalization of interest rates for PACSs, fear of competition with local commercial banks tends to keep rates low.

The problem extends to the fact that despite being the foundation of the cooperative system PACS face the lack of autonomy and capacity to undertake business planning in a very structured way. Any push to consolidate or grow emanates from above. Any goals or targets are based on recommendations of largely the DCCB which is the direct source of finance, rather than being based on local reality or potential.

Scope of Outreach and Member Demand

SHG along with other informal, local services are used widely for various livelihood and life-cycle needs. Focus group discussions with members of SHGs also revealed the value of the SHG as a place to regularly keep savings, from where members could get small amounts of money as and when required, in a timely manner and with minimal paperwork.

On the demand side there is considerable interest to link with PACS. The focus groups with SHG members showed their preferences for different features. The perceived value of PACS is high, especially for more remote SHGs. The PACS is seen as offering low interest rate loans, and loans larger than those available from SHGs. The PACS wins against the nearest commercial bank due to its geographical proximity, convenience and accessibility (flexible operating hours, door step banking) and because of familiar locally recruited staff. SHG member households would usually have at least one member of the PACS so awareness of its services is high

(universal membership policy). The PACS is also seen as dependable because of its image as a ‘government’ agency.

Figure 6: Alternative Financial Services

Source	Amount (Min., Max., Avg.)	Term and frequency of payment	Uses	Nominal interest rate, fees, forced savings	Within walking distance	Other Conditions
Moneylenders/ Landlords (do not lend to SHGs)	Ranges US\$50-200 approx.	Not fixed. Payment of interest at least annually	Life-cycle expenses, expenses for migration, and for working capital for agriculture	120%	yes	Collateral – land deeds for larger loans; household goods for smaller loans (not always proportionate to loan amount).
Friends and relatives	Ranges US\$ 50-250 approx.	Not fixed	Flexible but largely taken for small consumption and life-cycle events.	Usually free	yes	No collateral
SHG	Ranges US\$ 50-250 approx.	1 year – monthly payments	Completely flexible. Some SHGs did not allow the funds to be used for dowry.	15-18%	yes	Savings - Contribution rules (US\$0.33-0.44) per month.
PACS	Up to 4X of the SHG internal fund	1 year and 2 year, One time payments	The PACS had provided both one year term loans and two year term loans depending on the age and amount to be repaid.	12% Term loan	no	Full internal funds of SHGs in some cases (especially new groups) are kept at the PACS level. Interest is paid.
Commercial bank	Up to 4X of the SHG internal fund	One time payments	New SHGs (>1 year). Mature SHGs (>5 years)	9.5% term loan for SHGs	no (8 km)	

The nearest bank branch was about 8-10 km away, but the above mentioned factors were enough to swing SHG preference even though the interest rate on SHG term loans was 2.5% cheaper than at the commercial bank. SHG members also felt that banks are for the rich who can understand the more complex procedures and paperwork. Convenience and liquidity, or ready access to savings and internal funds were the key deciding factors for financial service choices.

Box 3 Discussion with members of the Sabarmati Group

This was a group composed of extreme poor members. Their monthly savings contribution is US\$0.44 each (10 members) making an average contribution of US\$4.40. These members have been saving regularly for two years now and after the first year of their operation they received a loan of US\$111 from the PACS. Two members of the group divided this loan between them as the others had no need for a larger loan. For these two members however the loan was critical. For the first time in many years they repaid old loans they had received from landlords, released their small plots of land and this year cultivated the land themselves. Previously they cultivated these lands (which were in fact their own) for the landlord in exchange for in kind (paddy) remuneration.

The groups Karunamoi and Anandmoi took loans from the PACS to lease land which was already cultivated with *sabai* grass. The loan amount was US\$555 per group. All group members of these seven to eight year old groups divided the loan amongst themselves. The *sabai* grass was harvested and sold in the local market by the group. Profit was immediately distributed to the group members. The group made a US\$266 profit each on the whole enterprise.

The main service proposition of the PACS is really the higher loan amounts, useful especially for investing in new enterprises. For example, group members setting up a *sabai* grass joint enterprise did not have enough money in the SHG but managed to leverage their internal fund savings for a larger loan in the ratio of 1:2 from the PACS. They have repaid and are now looking to get a still larger loan to purchase a bus which they will manage also as a joint enterprise. Fairly mature SHGs (more than four years old) have already leveraged their internal funds by up to three times to raise PACS loans, although achieving this was slow, with initial loans being as little as eight-tenths of the internal funds of the SHG. Remote SHGs therefore get access to services that they believe are otherwise expensive or inaccessible.

Summary of Rural Outreach

The PACS-SHG linkage has succeeded in expanding one of the most rural financial institutions even further remote and deep. Growth has been quite aggressive, in terms of members, savings and loan portfolios averaging close to 50% per year. This is partly made possible due to low operational costs through local personnel. However, both growth and cost control may be compromising the quality of the groups in terms of repayment and risk management. While remote groups clearly value the proximity, local staff, liquidity and larger loan amounts with PACS, the service is only marginally better than their own SHGs. More mature SHGs, even remote, reach a glass ceiling for leveraging loans against their savings at which point other financial services become much more attractive.

What Has Enabled This Member-Owned Institution to Achieve Remote Outreach?

Linkages and Networking

Linkages have been an important part of expanding reach into rural areas for Purulia: 98% of the local population is members and more than half save, indicating a level of trust in the institution. SHGs easily access loans from their internal fund largely for consumption and some livelihoods needs. The larger loans from the PACS enable SHG members to consolidate previous debt, diversify livelihoods and in some rare cases male members of SHGs have used the SHG loan to provide repayments against agricultural loans. This was previously an issue due to some problems in the repayment schedule for agricultural loans of both PACS and the local commercial bank.

However, long-term sustainability of this model is threatened by liquidity issues that jeopardize the PACS system at all levels. The value of ownership felt by members will not be enough to hold them or to provide adequate accountability for a risky system. While the linkage between PACS and SHGs has been important for reaching into rural areas, the linkage itself is not enough. Significant barriers exist to scaling up SHG linkages even further. The first and the most immediate of these is liquidity. While larger loans are the main draw for SHGs, these are still sometimes difficult to access. Many SHGs despite being mature and having returned their loans on time find it difficult to get second larger doses.

Some PACS still retain SHG internal funds, in spite of member demand and NABARD guidelines stating that internal funds are not required in a bank or cooperative to determine loan levels. In a less remote area, where choice of service providers was greater and member awareness perhaps stronger, an SHG promptly removed its savings from the PACS and transferred both its savings and loans to a nearby commercial bank branch. In the more remote Bararanga, SHGs are restricted due to lack of options. Here also the PACS kept a large proportion of internal funds, especially for new groups, continuing to service even small loans for SHGs—something that would typically in a bank linkage format be serviced at the SHG level. Servicing loans to SHG members directly while still keeping transaction costs low is perhaps less of a problem for PACS, located as they are very close to where members live. However this may vary from region to region and is against the overall design of the SHG bank linkage program. In the case of the Bararanga PACS, this is more a misinterpretation of rules than any conscious effort to distort them and limit member accessibility to savings.

For the multi-tier system overall, the issue of liquidity is critical. Lack of training and weak financial management has resulted in poor planning and inflexible products for SHGs. It is also linked however, with ineffective liquidity and oversight functions in upper tiers, regulatory and internal control issues and even ownership and governance structures. Also, PACS are discouraged from retaining savings due to their weak internal controls. As much as two-thirds of PACS resources are kept at the upper tier levels, which creates liquidity issues at the PAC level and increases the costs of capital.

In order for the linkage to be truly sustainable, liquidity problems at all levels need to be addressed. This not only helps to better manage risk in the system, PACS would be in a better position to treat SHGs as proper client-members and offer more flexible products.

Regulation and Supervision

A key feature which makes for an enabling environment for SHG linkage in West Bengal is that it allows for primary members to be groups that are not registered as societies or cooperatives (i.e. SHGs can be members of cooperatives). This offers some interesting advantages (see section on Ownership and Governance) one of which is an opportunity for SHGs to be registered entities. Additionally, and to ensure member ownership, the Act provides for “one member, one vote”, as against “one share, one vote” elsewhere in the country in order to avoid the risk of large (rich) shareholders dominating the cooperatives.

This regulation is part of a move to strengthen and formalize the sector. The relatively new Andhra Pradesh Mutually Aided Cooperative Society Act (1995) (already in place in as many as nine of the 25 states of India) attempts to professionalize the SHG movement by encouraging divestment of State shares in cooperatives and graduation of SHGs through federation to become regulated entities. Other aspects include special audits, revised MIS, streamlining of the three-tier system, conditional capitalisation, etc. (Government of India, 2005). Reducing risk

in the sector is essential for the longer term. On the other hand, questionable regulatory restrictions that exacerbate the liquidity problems need to be challenged. Current regulations limit PACS from borrowing from other sources. As a result, PACS will face a major challenge in addressing the fast growing liquidity needs of SHGs.

The regulation and supervision of the SHG–PACS linkage system suffers from multiple layers of inadequacy. The CCS itself “is said to suffer the problem of dual control. It also suffers from a surfeit of rules and no regulation. It suffers from too many supervisors and no supervision. It has too many owners and no ownership” (Price Waterhouse Coopers, 2006). The CCS is regulated both by state laws as cooperative societies and bank laws for banking business. However, PACS are not regulated by the Banking Regulation Act thus leaving them under the regulatory purview of the state, which in cases such as the current PACS is also partial owner of the cooperatives. “This in the past resulted in a number of restrictions on the managerial and governing autonomy of the cooperatives” (Zacharias, 2005). Reforms are now on the anvil for the CCS (See Appendix A) and this is possibly an ideal time to see how a stronger space can be carved out for SHGs in the overall system.

The systemic weaknesses of the CCS limits the scope of products and services that can be provided to the SHGs. Due to weak compliance with prudential norms, cooperatives are not encouraged to actively increase their deposit taking. This was of particular importance as the PACS are relatively less secure, in that it is optional for them to register under a deposit insurance scheme of the State. Many PACS are also ineligible as they do not meet certain eligibility criteria. In an all-India study, which included West Bengal (Harper, et al., 2004) 50% of the 181 District Development Managers (NABARD officers) who answered the question on deposit insurance stated that deposits with the PACS in their DCCB were uninsured, and a further 7% said that the insurance scheme was inoperative. Only 43% stated that deposits in the PACS were insured. The sample PACS for this study was one where deposits were uninsured. As a result services such as insurance, etc. cannot be provided through the PACS. Also PACS are not allowed to borrow from sources other than the upper tiers. Liquidity therefore becomes a problem as does by extension the length of outreach in the context of SHGs.

A form of self-regulation by upper tiers provides on and off-site supervision but it is done on a sample basis. Supervision is weakened by the poor quality of audit and accounts. NABARD requires performance to be assessed and graded by the Directorate of Co-operative Audit with a clear rating system. Whereas A and B grading indicated financially sound position and better financial management, C indicates average and D poor financial status. The Directorate also appoints auditors chosen from a list of accredited agencies. Compliance with this current system remains a problem. While we did repeatedly ask for a current and past record of the ranking, none was available. Therefore, neither the DCCB management nor the PACS itself really was in the habit of assessing performance or changes in performance over time. Accounting and bookkeeping was still lacking in basic requirements.

The management of information systems is extremely weak in the PACS as also in relation to the SHGs. No internal reports such as relating to loan repayments are available. Transactions were highly risky, always in cash, mostly managed by one staff member rarely transferred and largely without random checks on cash amounts or any other checks and balances.

The bottom line however, is that the PACSs offer strong potential for outreach in remote areas for SHGs. In such regions, a locational advantage and local staffing makes them trustworthy for SHGs and competitive as a relatively low cost model. How best can the system promote and secure this outreach?

Ownership and Member Governance

Box 4 Recovery drive visit of Bararanga PACS

For the first time in the Bararanga PACS the Secretary reports loan delinquency in two non SGSY SHGs. Staff suspects both of them have been affected by the SGSY program. We visited one of these SHGs, a one and a half year old group, to understand the real issue. PACS staff says they have had troubles with this group from the very beginning. On the occasions they wanted to meet with the group, even before they took the loan, the group members would make some excuse and not attend meetings. But the office bearers were good and the savings were on time so they still provided a loan to the group.

In our discussions with the group, initially group members refused to come forward and admit they had defaulted on the loan. When the PACS Secretary showed them the relevant paperwork the group members started blaming each other. Finally one of them said “Everyone took small loans except her (pointing to one woman) who took ten thousand rupees and told us she would not repay. So other group members also decided they won’t repay.” Upon being asked who told them about the SHG program and the PACS, she again pointed to the same woman and said ‘her husband’. We asked why they thought it was all right to default. They said the PACS can manage without our money – they have many clients. We asked about their savings. They responded and said those are still with the PACS. The DCCB supervisor² (who was also present) told them the money that they had not returned was not of the PACS, it was their savings and the savings of other SHGs like them. The woman whose husband had formed the group and taken the loan then admitted, “My husband said this is what happens in all these groups. The government has a lot of money and we form the groups and then take the money – it is like charity. We did not know it was the villagers’ own money. We have to do the same with this SHG.” Upon being asked if he had previously been a member of any other group she confirmed he had been the member of a group. We got a loan and we also got a grant with that loan. We asked whether she received the grant up front or after repaying the loan. She said she got the grant and the loan payment together but they cut the interest payment from the loan.

* The tendency has been to blame everything on the SGSY, the reason for accompanying the PACS staff on a recovery drive

In remote areas, the relative isolation of groups and borrowers from the monitoring institutions, as also the general lack of information on schemes means that borrowers

² The DCCB Supervisor a cooperator for over 35 years himself, as indeed many staff of PACS we visited in West Bengal truly believe in cooperative principles of using members’ own resources for their own gain.

can be easily misled to credit indiscipline. In such conditions even slight aberrations in translating policy on the ground can result in a number of issues. In the government scheme that was being implemented until recently (SGSY) the subsidy is to be given after all repayments have come in on time as an incentive to the borrower (called a back ended subsidy). However, sometimes the subsidy for various reasons is released ahead of time resulting in widespread defaults. In this case despite all care to focus attention on SGSY groups, it is difficult for the PACS to be entirely careful that all SHGs be free of such influence. However it was interesting that only when the SHG realised it was their own savings in the PACS that was being distributed amongst their attitude underwent a change in terms of how they viewed their own repayment behaviour. Is savings therefore a key link in ensuring ownership?

The greatest value derived by members of SHGs was as owners of the SHG

When asked the question who owns the SHGs all 11 SHGs with whom focus group discussions were held identified members as owners—money borrowed from the SHG would still benefit the borrower as its interest would one day come back to them in the form of a dividend. When asked the question if the local moneylender were to reduce rates of interest to a level that the SHG charged who would they borrow from, this sense of ownership became a deciding factor, prompting them to still prefer the SHG to the moneylender. Focus group discussions with members of SHGs also valued the SHG as a place to regularly keep savings, from where they could get small amounts of money as and when they required it in a timely manner and with minimal paperwork.

SHGs preferred to retain control over a large part of their savings, as these enable them to meet immediate liquidity needs within the group, without the involvement of a formal agency. And the issue is not just one around how to manage liquidity across the system, but about how safe are SHG deposits with PACS.

The greatest value derived by SHGs was as users of PACS services

Ownership was not a deciding factor for SHGs in choosing PACS over other service providers. SHGs considered themselves users of PACS' services, rather than owners. SHG sense of ownership therefore in the PACS stands in sharp contrast to the sense of ownership within the SHG itself.

Ownership of SHGs in PACS is in fact not well defined. Due to the principal of 'one member one vote' in most parts of the country, primaries are required to have individual members. The West Bengal State Cooperative Act departs from this in allowing groups to be members. Cooperatives in Orissa and Chattisgarh also allow groups as members. Due to certain membership criteria for PACS SHGs are actually nominal members rather than voting members. This is despite the fact that they contribute 25% of the deposit base of the PACSs. Of the groups interviewed, 100% had savings with the PACS and 80% paid share capital, but none were voting members in the PACS.

The lack of clarity around ownership admittedly creates certain specific advantages for SHGs in the PACS system. It enables access to higher loans. In the case of full-

voting members loan amounts are tied to share capital contribution—the more the shares a member purchases the more he/she can access. In the case of SHGs, it is linked to internal funds as per NABARD guidelines. According to DCCB staff the current ownership structure seems to enable SHGs to access higher amounts of loans. Pressing for full membership may limit this access as SHGs are not able to pay high amounts of share capital.

On the other hand, it also creates disadvantages for the system in general and SHGs in particular. There is a regulatory interest to contain adjunct membership (time bound, cannot hold office or take loans, can save), given that cooperative societies are only allowed to raise ‘member’ not public deposits. An extreme case of such an arrangement is PACS where SHGs are allowed to save but not access loans. This is not the case with the Bararanga PACS. SHGs form a distinct interest group in the PACS system, but do not have a say in PACS governance. At times of conflict, such as in the case of a group which wanted to resist depositing their full internal fund with a PACS, the need for a voice in PACS governance in the very least becomes more evident.

Given that in the case of the PACS the SHGs evidently valued quality and timeliness of services over ‘the need to own’. The lack of full membership does not seem immediately to limit remote outreach and nominal membership seems to be an adequate temporary operational step. However, the lack of a sense of ownership in the PACS means there will always be a higher risk of default, something savings based institutions limit by repeatedly reminding members that their savings are a stake in the organization, that the organisation’s resources are in fact their resources.

In order to fully treat SHGs as customers and ensure their representation in the general body, greater inclusion of SHGs in decision making processes and clarity around the role their savings play, their membership rights including voting and right to a share in profits of PACS is key.

Conclusion

Is the SHG-PACS linkage viable and desirable as a means of remote outreach? From this case it seems a win-win for both SHGs and PACS, but within the current regulatory, ownership and governance structure PACS are able to offer only a marginally better service than the nearest bank.

In summary, PACS can benefit from a cheap deposit base and can explore a new, profitable and expanding market segment. Harper, et al., (2004) also emphasizes that SHG linkage can strengthen the PACS, by making deposits but more importantly by taking good quality loans and providing women members. SHGs benefit from close access to a broader range of services than is available from local, informal sources including their own SHG. For most of the members with whom discussions were held the SHG account was the first account they had ever held in any ‘formal institution’. However, flexible products and safe, reliable access to savings are issues that are dependent on a more financially viable PACS. SHG member ownership is

nominal and not a deciding factor for choosing PACS over other service providers. Nor is ownership necessarily enough to ensure effective internal control.

To be a viable linkage model in the long term, the PACS itself needs to be strengthened as a financial intermediary including appropriate regulation and supervision. As a credit institution, PACSs can lower financial costs, improve their liquidity status (with some changes in allocation of resources with upper tiers) and provide a key service to members. However, as a savings institution, PACS are simply not safe SHGs and indeed any client will be placing their deposits with relatively weak institutions that generally do not have deposit insurance and have low levels of capital adequacy.

Overall SHGs are a relatively new idea for PACS, which is still struggling to define the basics of its relationship with them. For example PACS has yet to fully develop and implement a monitoring system which balances the need for SHGs to remain relatively autonomous, while at the same time reduces the risk of this portfolio. In fact to some extent this is a reflection of the problematic inter-tier relationships within the CCS—which in turn, affects liquidity access for SHGs. The current regulation should encourage movement away from tied relationships with upper-tiers for PACS.

At the same time SHGs are yet to be fully integrated into the PACS structure as owners and decision makers which limits their ability to negotiate for changes. A key issue is also how to ensure transparency in the case of non-member users, (e.g. bringing SHGs into the fold of general body meetings). Regulation can play a key promotional role, helping to define ownership and supervision structure of the linkage. This should allow for a greater role in decision making and access to information by SHGs.

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Links / Statistical Data

NABARD, National Bank of Agriculture and Rural Development.

Available: <http://www.nabard.org>

Abbreviations:

ASCA	Accumulating savings and credit association
CCS	Cooperative credit structure
CPI(M)	Communist Party of India (Marxist)
DCCB	District Central Cooperative Bank
KCC	Kisan Credit Card
MIS	Monthly income scheme
MOI	Member-owned institution
NABARD	National Bank of Agriculture and Rural Development
RRB	Regional Rural Bank
PACS	Primary Agricultural Credit Society
SC	Scheduled Caste
SGSY	Swarna Jayanti Gram Swarozgar Yojana
SHG	Self-Help Group
ST	Scheduled Tribe
SACCO	Savings and credit cooperative

Appendix A: Recommendations

Recommendations of the Task Force for Revival of Short Term Credit Cooperative Credit Structure in India

The recent Vaidyanathan Committee has made a number of recommendations in this context, only a few of which are highlighted here:

- Bring cooperative banks on par with commercial banks in terms of prudent financial regulation
- Prescribe fit and proper criteria consistent with the membership of cooperatives for election to the Boards
- Ensure professionalism in the Boards, however, three or four members with prescribed qualifications should be co-opted
- With voting rights in case members with prescribed qualifications do not get elected
- Prescribe minimum qualifications for CEOs of the cooperative banks and approving their names
- Prescribe capital adequacy norms for cooperative banks (to be implemented in a phased manner)

- Prohibit any cooperative other than a cooperative bank from accepting public deposits from any person other than its members

Recommendations emerging from this study specific to SHG Bank Linkage

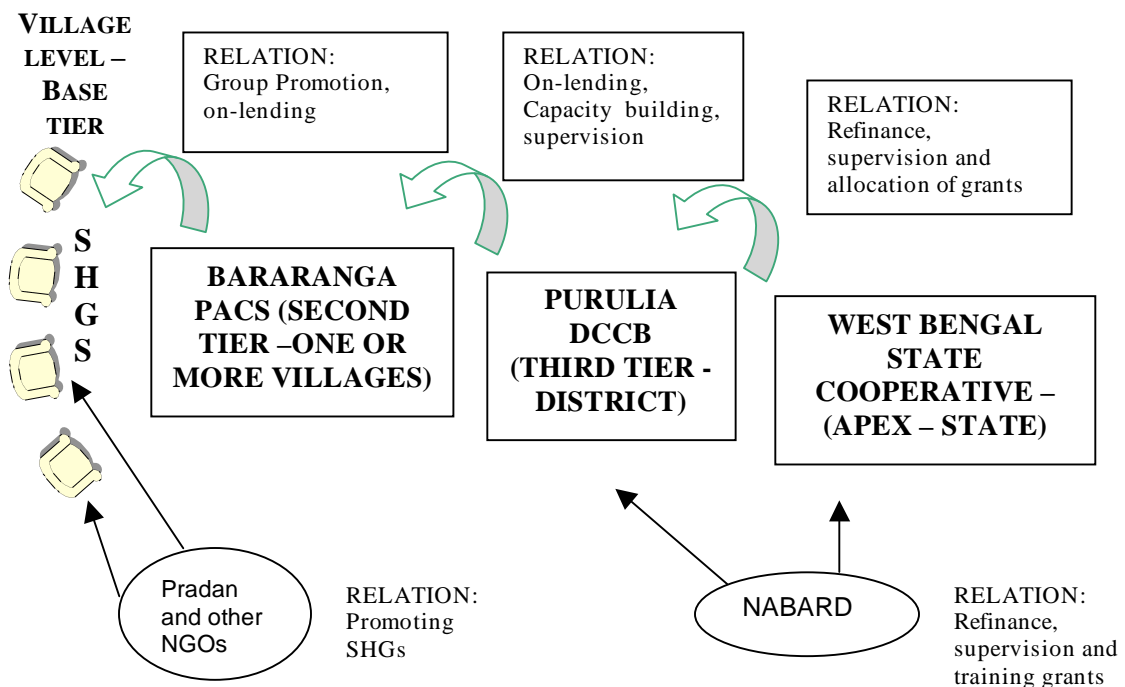
For those PACS which are relatively strong (audit grade ‘A’ and ‘B’) recommendations can include:

- Systematising rating of SHGs
- Greater ease of accessing larger loans from PACS for SHGs, for which the PACS should not need to seek any clearances from the DCCB
- Capacity building of PACS staff to bring greater quality to their business planning, product development, SHG promotion skills
- SHGs to be allowed to retain at their level a majority of internal funds as opposed to the current wrong practice of keeping all internal funds of the SHG at the PACS level
- As the PACS of these grades are relatively stronger, there should be a greater effort to support their savings orientation
- There is a need to develop a strong credit management system for microfinance at the PACS level
- Make deposit insurance compulsory

For those which are relatively weaker but not completely unsound (‘C’ grade) in addition to the above we recommend:

- Explore new service models such as PACS becoming business correspondents for commercial banks

Appendix B: System Diagram



Appendix C: Methodology

Study Objective

To illustrate how varied member-owned models in different contexts have been able to achieve significant outreach in remote, rural areas.

Defining Member-owned

- Clients are both owners and users of the institution
- Member equity is tied to ownership and decision-making (shares; savings; rotating/internal capital)
- Member equity is a key source of funds
- Legal entity is based on member-owned (i.e. association)

In order to cut across models definition needs to account for a variety of forms of equity and decision-making. Even what legal entities are possible will vary from context to context.

Defining Remote

Unserved in its own market. This can be due to several factors:

- Geographical distance from nearest service or input provider
- Population density
- Socio-cultural aspects of access such as gender or ethnic background as in the case of lower castes in Asia or indigenous groups in Latin America

Study Methodology

The intention of the research is to help answer some questions about different types of member-owned institutions to determine what potential they have for depth, breadth, scope, length, worth and cost of remote outreach, using Schreiner's (1998) six aspects. In-depth institutional analysis of each MOI sample examines remote outreach and demand by remote members and member groups. The second level of analysis focuses on how remote outreach is influenced by three key drivers:

- Networking and linkages
- Governance and ownership
- Regulation and supervision

The perspective of analysis is from the lowest tier association, SACCO or set of groups and their members. Selection of case MOI(s) is based on the 20% most remote MOIs within their sample universe. Selection is based on remote members/groups that are representative and mostly strong. The sample universe would be the district, sub-region or cluster of MOIs according to second-tier organizations, political boundaries or regulatory areas. Depending on size of MOI and sample, range could be a number of self-help groups to one SACCO or village association.

Case-Selection Criteria

- Remote in terms of households is proxied by one or more of the following:
 - Location of access points (decentralized and centralized level if receiving different services at each point).
 - Distance of access points to local centre and nearest road (nature of road), availability of transportation.
 - Depth of outreach (varies by context but broadly a factor of population density and infrastructure, poverty level, and other indicators of social exclusion).
- Member-owned (not managed externally; members involved in decision-making)
- Strong breadth of outreach relative to the context
- Informative in terms of one or more of our key research questions (governance and member-participation; external resources; regulation and supervision; type of MOI)
- Not so unique or idiosyncratic that it does not have lessons that can be applied to other contexts
- Relatively financially viable
- MOI is transparent, information is readily available or fairly easily collected and staff is willing to collaborate in collecting information.

Schreiner, M. (1998). Aspects of outreach: A framework for the discussion of the social benefits of microfinance. *Journal of International Development*, 14(5), 591-603.

Appendix D: Financial Data

1 PACS - 85 groups	
Depth	
Avg. savings balance as % of PC GNI	12%
Avg. loan balance as a % of PC GNI	22.09%
Population density (persons per km ²)	405
No. of service providers in service area	2
% of clients who are female	85%
Length	
Operational self-sufficiency	98%
Financial self-sufficiency	NA
Portfolio at risk > 30 days	NA Repayment rate 82%
Total operating expenses / avg. total assets	6.99%
Average staff remuneration / PC GNI	30%
Breadth	
Number of active borrowers	386
Number of active savers	782
Cost	
Effective interest rate	521.8%**
Worth	
Retention rate	95%
Other	
Growth in total assets	14.6%
Net loans / total assets	62%

Notes: Data is self-reported. PC GNI refers to per capita gross national income. NA indicates that data is not available

The following assumptions were made to calculate the effective interest rates:

SHG-PAC	Member-SHG
Principal: \$100	Principal: \$100
12% /year nominal rate	16%/year nominal rate
100% guarantee	.44 per month compulsory savings
Term=12 months	Term=12 months
Monthly payments	Monthly Payments