Inafi INDIA

Annual Report 2013

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Chairperson's Message

"Earn your wealth but understand that your wealth is not yours; what belongs to you is the right to an honourable livelihood, no better than that enjoyed by millions of others. The rest of your wealth belongs to the community and must be used for the welfare of the community; Wealthy people should outgrow their greed and sense of possession, and to come down in spite of their wealth to the level of those who earn their bread of labour"

- Mahatma Gandhi

A decade of accomplishments of INAFI India deserves a grand celebration. With its core values of inclusive, native, alternative, facilitative and innovative (INAFI) it has earned a distinct space in Indian microfinance sector. It is championing the enabling aspect of microfinance by building social capital and viable linkage creation between Self Help Groups (SHG) and bank branches for livelihoods development. All the members are addressing poverty reduction and establishing self reliance communities for continuous advancement of well being. Financial advancement is practised extensively for credit and insurance absorption.

Next decade of INAFI India would address the following:

- Inclusive development
- Resilient SHGs and Federations
- Coping migration creatively
- Promoting producer companies
- Self-Regulation
- Advancing capacity building

Many enabler of microfinance institutions in India would become a member and shape the development policies and finance.

Last year was an year of consolidation. Sweeping changes are happening in financial sector and it has larger impact on INAFI's way of working in India. Regular contribution to policies of Reserve Bank of India is worth mentioning and INAFI is constantly fighting against self-interested way of microfinance operations. Canara Bank came forward to sensitize the community and other stakeholders on financial education with INAFI India on a scale. With the active involvement of members, we are marching ahead to the next decade with clear strategic direction.

M.P. Vasimalai
Chairperson

FOREWORD

It is a matter of fulfilment that INAFI India's development journey has crossed a milestone – a decade of work. Looking back, the growth of the micro finance sector particularly, the SHG Bank linkage has been robust and the self help group model has emerged as the locus for development programmes across the country be it Governmental or otherwise and vehicle for delivery. We are conscious that the growth of SHG movement needs to spread in Northern and Eastern regions as happened elsewhere to reach and empower more and more women in millions. The enabling process of the network has contributed to the capacity building of the members and the sector and also community owned and managed institutions particularly, the self help group federations as the focal point for developmental interventions beyond micro finance – health, education and for that matter localising the MDGs. Moving up the financial services curve, INAFI India has triggered the process of access to micro insurance, remittances and micro pension that brought the whole agenda of financial inclusion and combined with the financial literacy to the core of the network's purpose and action. It is matter of gratification that INAFI's policy of pro poor policy pitch has contributed to enabling policy framework for credit dispensation from Banks for the SHG communities and small holder farmers and their FPOs.

Going forward, INAFI India needs to take on the challenges including deepening microfinance as development finance, with eye on the outcome of poverty reduction, enabling the excluded segments of population to connect with the Banks for all their financial services. What is more, social, financial and economic inclusion from development perspective would underpin the network's agenda and action.

The support of Canara Bank for the network's initiative on financial literacy for the SHG leaders and the support of Ford Foundation and ICCo India for the small holder agriculture is gratefully acknowledged.

M. Kalyanasundaram
Chief Executive
INAFI India

Directors' Report

The year 2012 that has gone by marks a significant milestone in the development journey of INAFI India as it marks a decade of its working. Articulating the alternative paradigm of developmental focus beyond microfinance, INAFI India has positioned itself in this decade more as a development network through the instrumentality of microfinance rather than as a mere microfinance network. The focus on debt trap, millennium development goals, self-regulation, and governance of community based institutions like SHG federations and cooperatives are but few initiatives with the development focus noteworthy of mention. INAFI India also took the initiative to organize the Alternative Summit first of its kind for the network and sector and brought the development focus for the microfinance programmes. It influenced policy making by Reserve Bank of India by opening the ECP window for access to external credit for the NGOs and MFIs, a specific dispensation of credit for the farmer producer companies under the priority credit framework and inputs to Malegam Committee of RBI to rein the MFI's lending and recovery practices particularly margin and interest capping.

Be that as it may, the year under review has been quite significant for our work on dissemination of the knowledge and practices in livelihood initiatives in a National Conference on Farm Based Livelihoods which was organized in association with Tamil Nadu Government. Our work in financial inclusion particularly the financial literacy programmes in association with Canara Bank for SHG leaders is worthy of mention.

National Conference on Farm Based Livelihoods:

Livelihood enhancement and promotion has been high on the agenda of member NGOs of INAFI India network. Consequently, INAFI India has been working on building capacity of members and sector in livelihoods, setting the platform for learning from experiences not only members but other stakeholders. In pursuit of this agenda, INAFI India has joined hands with Tamil Nadu Corporation for Development of Women, Government of Tamil Nadu, Pudhu Vazhvu Project, Government of Tamil Nadu and DHAN Foundation in organizing a National Conference on Farm Based Livelihoods on 29-30 October, 2012 @ Chennai. The conference is a unique in the sense, the first day is devoted to the conference of communities (COC) engaged in livelihoods from different States which has given the opportunity to communities to articulate the issues and challenges particularly faced by the small and marginal farmers and to share the issues and suggestions and issues require policy support from Government, Banks and NABARD. The second day of the conference is for the other stakeholders including NGOs, Governments, Commercial Banks, philanthropies, civil societies and they deliberated on the policy leads emerging from the communities' feedback and looked at innovative ways of livelihood financing. Furthermore, the conference also provided opportunities to identify the areas of convergence for collaboration with National Rural Livelihood Mission for enlarging farm livelihood opportunities for small and marginal farmers. Further, the following areas also have been brought to fore for greater attention from the perspective of implementation:

- Graduation of livelihood of small and marginal farmers/SHG members engaged in farm based activities had happened due to adoption of low cost and easily replicable technologies like SRI system of paddy cultivation, use of breeder seed, exchange of labor, Non-pesticide management (NPM), pit-tray method of nursery, construction of farm ponds etc.,
- Collective farming, collective purchase of inputs and collective marketing is emerging as practical approach for increasing farm based livelihood.
- Wherever there is an initiative for exclusive community based organization for enhancing farm based livelihoods, it has yielded results
- Capacity building of SHG members/small and marginal farmers has empowered them to take up collective initiatives to address farming issues.
- Local employment generation has also happened due to such interventions at smaller level

It must be acknowledged that the Conference of Communities had enriching and enlightening deliberations by the communities coming as did from the practices and experiences, bringing to the fore many issues and challenges, success and failures, gaps and the lacunae in the support system including enabling process, lack of infrastructure, lack of legal framework, etc. Interestingly, access to land and capital and labour availability continue to pose major challenge in pursuing farm livelihoods. For the supportive stakeholders to get a full account of the deliberations on both days, the detailed proceedings have been captured. However, in this chapter we have summarized the important insights and recommendations.

Financial inclusion/Financial literacy

As network, INAFI India is involved in advancing financial inclusion to enable access not only to savings and credit but also to other importance services – insurance, pension, remittances. As part of this financial inclusion work, financial literacy programme has been identified as a key component and members are aware that INAFI India has brought out financial literacy material of basic financial services and conducted trainers' training programme for NGOs. During last year, the financial literacy work was carried further and focused on training the SHG leaders and field staff of NGOs such as animators, associates. It is a matter of gratification, on seeing our content and the pedagogy methods suggested, Canara Bank has come forward to work with us in promoting literacy for SHG leaders. And with Canara Bank grant support, we have organized 3 programmes in Tamil Nadu in the lead districts namely Madurai, Coimbatore and Erode, and 5 programmes in Karnataka in lead districts namely Shimoga, Hassan, Kolar, Chickaballapur and Bangalore Rural.

Financial Resources:

Utilisation

The accumulated grant amount received from foreign sources (Oxfam Novib and Ford Foundation) have been utilised to the extent of Rs. 21.66 lakhs under the general project fund for policy advocacy work and institutional administration.

Event/conference based fund received from local sources and the programmatic grant mobilized from local sources are furnished below:

1. NABARD - Rs.1.5 lakhs
2. Tamil Nadu Corporation for Development of Women Government of Tamil Nadu - Rs.1.5 lakhs
3. Canara Bank - Rs.4.5 lakhs

We are yet to receive a sum of Rs.2 lakhs from Pudhu Vazhvu Project, Tamil Nadu Corporation for Development of Women, Government of Tamil Nadu being the amount already sanctioned for organizing the National Conference on Farm Based Livelihoods @ Chennai along with our AGM on 29-30 October, 2012.

Under the general fund, we are hardly left with 5 lakhs which would last for administration till December, 2013. The corpus fund of Rs.25 lakhs remains intact.

Mobilization

Proposals have been shared with NRLM and SDTT. Our efforts with NRLM for national level working arrangements have not fructified (despite indications received from NRLM earlier). Despite our personal meetings at Director Level, there has not been positive response.

As far as SDTT is concerned, originally, we have shared a proposal for 75 lakhs (on the theme of enabling migrants to access financial services) with 25 lakhs per year for a 3 year period. At the behest of SDTT, the proposal has been pared and we have resubmitted the proposal for an outlay of Rs.35 lakhs at the rate of Rs.12 lakhs per year. Sanction is awaited.

Regarding SRTT, we have been asked to wait for their strategic planning process to be completed for the next 5 years. We are in active touch with the SRTT for submitting our proposal.

Auditors

The Auditor, M/s Charles & Fernando, Chartered Accountants, Madurai, will retire at the forthcoming Annual General Meeting. Having regard to their quality of inputs and professional excellence, we recommend to the General body for its consideration, the resolution re-appointing M/s Charles Fernando & Co, Chartered Accountants, Madurai, as our auditors for the current year (2013-14) on a suitable remuneration to be decided by the Board.

Directors Responsibility Statement (Pursuant To Section (2AA) Of The Companies Act, 1956)

The directors' confirm

1. That in the preparation of the annual account, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any.
2. That the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state affairs of the company as at March 31, 2013 and the excess of income over expenditure of the company for that period ended on that date.
3. That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities and
4. That the directors have prepared the annual account on a going concern basis.

Acknowledgement

In the first place, active participation and support of member organisations are greatly appreciated.

The board places on record its deep sense of gratitude to Canara Bank for collaborating with INAFI India on the unique initiative of financial literacy for SHG leaders and NGO field staffs.

The board also acknowledges support and cooperation of RBI, NABARD, Income Tax authorities, Canara Bank and Auditors in conducting the affairs of the company.

The board acknowledges the efficient work of the core team at national secretariat in running the affairs of the company.

Place: Madurai
Date : 14th June, 2013

For and on behalf of the
Board of Directors
Chairperson

Report on Programmes

The core programmes of Inafi India are as follows:-

- Capacity building
- Research and development
- Policy advocacy
- Member services
- Product development
- Niche programmes – self-regulation, Financial Literacy

Furthermore, Inafi India represents the spearhead of SHG Bank linkage programme and thereby promoted financial inclusion by connecting millions of poor women to the banking system. Another great fall out of this community based microfinance work is the opportunities for capitalizing the social capital of SHG and its federations for scale and sustainability with the livelihood and civil programmes.

Building knowledge and capacity of Members and the sector

Micro Finance and Livelihoods

The MF and livelihood workshop has been organised on September 26, 2011 for the members and non-members on the organised livelihood systems supported by microfinance interventions with particular accent on collective farming on "aggregator model" under the producer company framework. The aggregate model promoted by SKDRDP has been presented to the participants. This workshop has helped the members to enhance their understanding about the role of microfinance generated social capital in enabling and enhancing organised livelihood systems and the significant benefits of scale accruing for marketing and other backward and forward linkages. Further, an exposure programme for the staff members of Inafi members and non-members of the North India have been organized at SKDRDP on February 6-9, 2012 for learning from the experiences of promotion of livelihood cooperatives, producer organizations and also apex body for marketing and skill building in the SKDRDP context.

Therefore, these two programmes created greater awareness about direct and indirect benefits of utilizing the MF intervention under the beyond microfinance approach. Greater outreach for economic opportunities generated.

Training programme on Micro Insurance

The importance of micro insurance services as a part of the poverty reduction strategy has been well established what with the risk and vulnerabilities of life, health and assets being addressed. The micro insurance provides risk financing.

There has also been a wider realization that micro insurance is an essential part of financial inclusion agenda and together with savings and credit it forms a fundamental tripod. It can be said that the micro insurance is now in the stage where savings and credit were more than a decade ago. This calls for quite lot of investment in building capacities, systems, process, literacy about the insurance as being a risk product, etc.

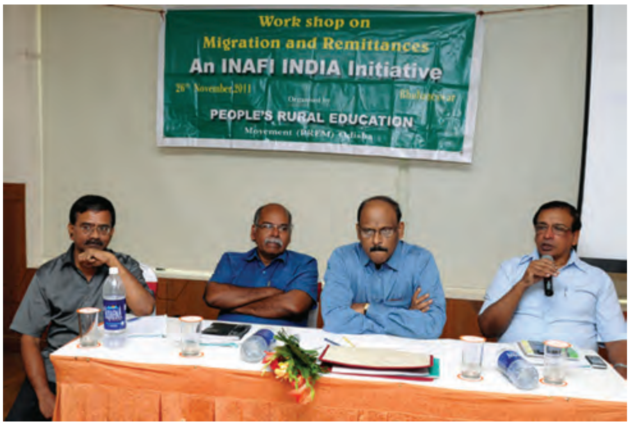
An exposure visit has been organized for the professionals of the NGOs with the micro insurance and mutual risk protection programmes of People Mutuals promoted by DHAN Foundation during November 15-18, 2011.

As a lead agency for micro insurance within the network, Inafi India is also reaching out to partner organizations in other continents to initiate and provide knowledge and clarity about micro insurance practices and programmes. In keeping with this mandate, Inafi India joined DHAN Foundation in organizing an international training programme on micro insurance in December 6-9, 2011 and enabled the participation of Inafi Asia member SAKTI Foundation.

Different stakeholders in the microfinance sector have been exposed to right kind of practice (already demonstrated by DHAN Foundation) about the system, products, mapping risks and vulnerabilities, process, etc. Inafi India through training programme jointly with DHAN Foundation has been able to promote micro insurance through advocacy efforts not only with the stakeholders but also with the regulators and policy makers. Training materials and literature on micro insurance have been prepared and used for the programme. Different stakeholders have been exposed to three kinds of intervention approach for micro insurance-connecting with the insurance companies for availing an MI product, mutual/cooperative insurance and a hybrid of combining the two as required by the context.

Migration and Remittances

India is a country with huge migration within and without. It is estimated that 1/3 of the Indian population is migrant in search of greater economic



opportunities and better living conditions. Among the migrant population, large segment of unskilled workers who are largely illiterate have been excluded from the formal banking system for remittance services. These migrant workers are in fact on the losing side when it comes to transfer of money from their place of destination (work place) to home. While there have been several migration hot spots, the state of Orissa is a leading region for out bound migration. It is, therefore, felt necessary to do a study in collaboration with one of our member based in Orissa to understand migration pattern and mode of remittance with a view to develop a remittance corridor in future. Accordingly, a study was initiated and has been completed. The study report was released on November 26, 2011.

Based on the study findings, it has been proposed to formulate remittance project for the migrant workers from the state of Orissa in association with banking system adopting the BC/BF model.

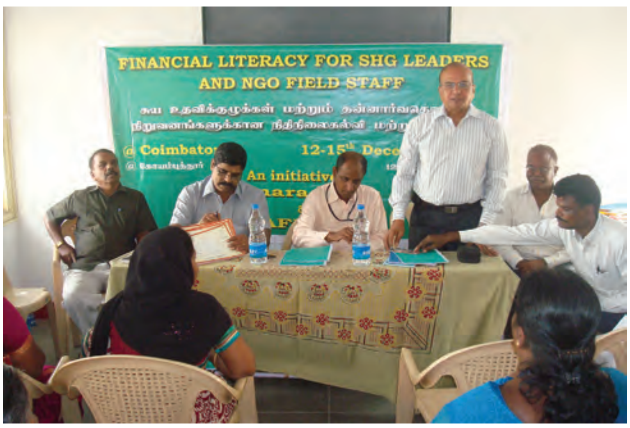
Financial Inclusion and financial literacy

Financial inclusion has emerged as an important strategy for social economic development particularly recognizing its role in micro, small medium enterprises. It is also recognized, nay, experienced that the microfinance programmes hold greater promise to expand the agenda of financial inclusion. In the Indian context with the huge population being excluded from the financial sector, the enormity of the work cannot be over emphasized. INAFI India sees a greater role for the network in concert with member organizations and also alliance with other players and networks. The SHG Bank linkage in Indian context has been playing vital role in promoting financial inclusion in the country. In the past decade and more, about 5 million SHGs have been linked to Banks with ostensible outreach of 75 million households, by far largest financial inclusion programme. INAFI India through its member organizations and also in partnership with commercial banks and other networks like INFOS (Indian Network of Federation of Self Help Groups) is advancing the agenda of financial inclusion for greater outreach and also for depth of outreach through advocacy and capacity building.

Financial literacy

It is recognized that for expanding and more so for sustaining financial inclusion on a long haul, the well informed public/customers would be a prerequisite. And it has been recognized that the none too impressive financial inclusion has to do with financial literacy along with the last mile connectivity issue. Elsewhere in the world too it has been evidenced that greater the financial literacy larger is the reach of financial inclusion among the population. The approach to financial literacy has to be well differentiated keeping in mind the awareness, access to information and general literacy levels of different segments of population. As the financial inclusion programme in India focuses on Bank as ultimate destination for financial services, there is a need for targeting the illiterate segment of population on the importance of banking relationship and their beneficial fall-outs especially affordability, safety and security.

Keeping this in view, INAFI India has been promoting financial literacy among the NGOs and civil society groups and the SHG communities. In this regard, it is a happy augury that INAFI in



association with Canara Bank and NABARD has organized Financial Literacy Training programmes for the SHG leaders and NGO field staff. To begin with, in the Lead Districts of the Bank, in the States of Tamil Nadu and Karnataka, and in all 8 programmes have been conducted during 2012. The Financial Literacy programme had comprehensive inputs for the participants in the whole range of financial services from savings, credit, insurance, remittances, pension and investment. The programme did provide all framework for the SHG leaders to spread the literacy not only among the SHG members but also public at large in the villages/urban slums where the SHGs are functioning. The focus of the programme has also been on the role of Business Facilitators and Business Correspondents and how the SHGs are effectively performing this role.

National Conference on Farm Based Livelihoods

Introduction

Inclusive growth and development is the central theme of the 12th Five Year Plan. Inclusive growth is a multi-dimensional aspect which should result in greater reduction in poverty from the holistic perspective touching upon health, education and human resource development. More importantly, the key objective of inclusive growth would be better opportunities for wage employment and livelihoods coupled with improvement in provision of basic amenities – water, sanitation, electricity, roads and housing. With more than 70% of the population still engaged in agriculture, the primacy of farm based livelihoods – crop and animal husbandry for the inclusive growth cannot be over emphasized. There have been successful experiences and experiments in enabling, promoting, enhancing and sustaining farm livelihoods particularly, the small and marginal farmers by the Governments, civil societies/NGOs. What comes out of this experiences and experiments is the need to scale up for sustaining livelihoods and linking them with larger supply and value chain. Lack of access to capital has been a major dampener in promoting livelihoods. To aid the process of enlarging the livelihood opportunities, access to financial services – savings, credit and insurance is an important and necessary condition. By and large, women including small and marginal farmers have not been able to enjoy the fruits of inclusive growth owing to their inability to capitalize on the opportunities emerging due to economic growth.

The advent of SHG Bank linkage programme has enabled large number of poor women to access savings and credit through bank linkage. To certain extent access through SHG Bank linkage programme has contributed to credit support of livelihood programmes. Nevertheless, livelihood financing through innovative ways and methods remains a greater challenge in our efforts to advance livelihoods. **In this backdrop, the National Conference on Farm Based Livelihood is being organized jointly by Tamil Nadu Corporation for Development of Women and Pudhu Vaazhvu Thittam of Government of Tamil Nadu, DHAN Foundation and Inafi India with focus on SHG women members and small and marginal farmers on 29-30 October, 2012 at Chennai.**

The National Conference was for two days with first day being Conference of Communities comprising of communities of SHGs, small and marginal farmers and the second day being the Conference of Supportive Stakeholders including supply and enabling stream comprising of Commercial Banks, Insurance Companies, Governments, Philanthropies and civil societies, CSR, etc. NABARD has been quite supportive and encouraging for this initiative and provided good grant support for organizing the Conference.

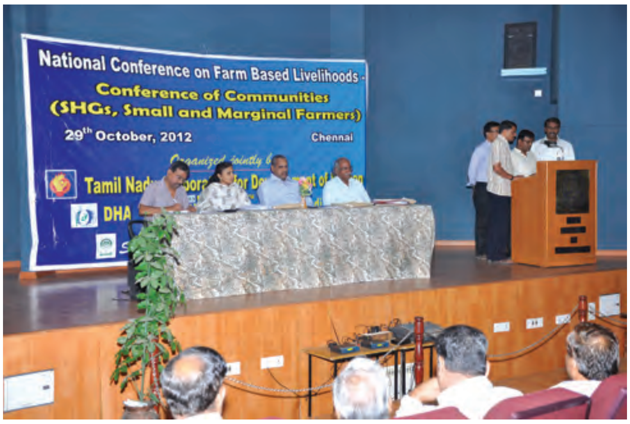
The Conference had been organized with the following objectives:

Day 1 Conference of Communities will have objectives of:

a) To provide platform for SHG women members to share their experiences and lessons learnt.

b) To articulate the issues and challenges, operational constraints faced by small and marginal farmers in farm based livelihoods particularly farm collectives/cooperatives and producer companies.

c) To enhance the knowledge on the supply and value chain and its benefits for small and marginal farmers.



d) To identify the issues and areas of policy support including livelihood financing from the Government, Reserve Bank, NABARD and Commercial Banks.

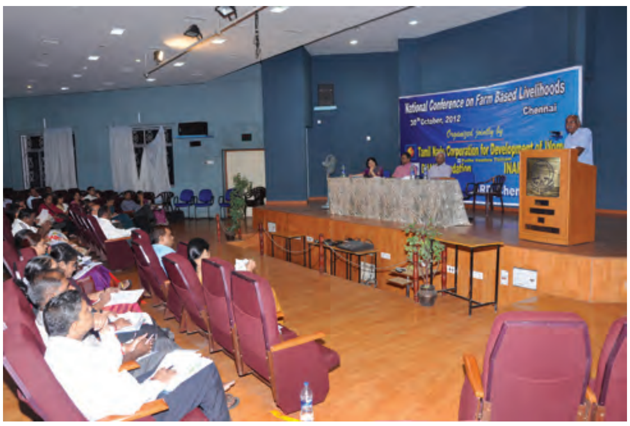
Day 2 of the Conference will have the following objectives:

a) To find out the gaps, bottlenecks and impediments in enhancing, advancing and sustaining farm livelihoods.

b) To look at innovative ways of livelihood financing for farmers' collectives.

c) To identify policy leads (based on the deliberations of the Conference of Communities) for various stakeholders including Government, Commercial Banks, Insurance Companies, Philanthropies and civil societies for enabling framework for farm based livelihoods.

d) To explore the areas of convergence with National Rural Livelihood Mission (NRLM) for enlarging farm livelihood opportunities for small and marginal farmers and suggest suitable ways and means for this approach.



Issues And Insights From Community Speak

Assets/Land

Fragmentation of land and resultant small size of farm holding is the biggest problem which has escalated the cost of cultivation on one hand and which impacts economic scale.

- Entitlement for women engaged in agriculture for land shall remain as major issue, which may have a negative effect on meeting the credit needs of SHGs members through NRLM or any other financing institutions that lends to SHGs.
- Land leasing continue to remain as a problem due to lack of enabling legal framework.

Farm Inputs

- Small/marginal farmer's knowledge on crop production with respect to fertilizer, pesticide and herbicide application, usage of cattle field is limited/inadequate and they were not able to take uniform decisions. Always they rely on the words of the input supplier (mostly the fertilizer dealer) who often mislead the farmers, leading to increase in cost of cultivation.)
- Indiscriminate and continuous use of fertilizers and pesticides without proper knowledge has created a negative impact on productivity and quality of the produce
- Price of fertilizers has increased many folds. People felt that there is no strong recommendation to government regarding this price issue.

Training and Capacity Building

- Capacity building and trainings through SHGs has led to definite positive change in farm based livelihood. Yet the full potential of SHGs is not utilized so that it can benefit all families engaged in agriculture and allied activities. A proper system has to be created for capacity building regarding farm based livelihoods

Technology Adoption

- Low cost and easily adaptable technological intervention in farming was done by SHGs. e.g., SRI method of paddy cultivation, using breeder seed for better yields, pit-tray nursery cultivation as a livelihood opportunity, effective use of fragmented rainfed lands through farm ponds, exchange of labor to solve the growing labor problem, ridges and furrow method of cultivation, reviving traditional agricultural crops and practices that were beneficial and organic farming
- Yet mostly technology is often pro-rich and out of reach of small and marginal farmers who remains excluded and isolated due to lack of proper system to include them in dissemination and adoption of new effective farm technologies.

Risks in Farming

- Farming depends on many external factors which are uncontrollable like weather/climate, floods and droughts, insufficient and untimely rains. Risk mitigation remains as another biggest challenge for want of appropriate and affordable crop and livestock insurance schemes.
- There is no full- fledged adaptation of existing insurance schemes. Though insurance schemes are linked with farm credit, even all the farmers who avail farm credit were not fully covered.
- There is delay in claim settlement, since it was after crop cutting experiments which forms the basis for claims. Also farmers face difficulty in getting necessary documents, requested by insurance companies due to field level problems.

Farm Credit

- Timely (ensuring credit during the beginning of crop season) and adequate credit (to meet the cultivation cost) is still out of reach of farmers
- Credit facility is mostly availed by big farmers and the small, marginal and tenant farmers face difficulty in getting farm credit.
- Accessing Government schemes
- Lack of awareness among farmers regarding the existing schemes
- Lack of guidance from the concerned authorities in obtaining the schemes, even when requested

- Lack of access to technology and schemes at the door steps of farmers.
- More number of documents has to be produced for availing a scheme benefit, which along with other problems causes a delay in realizing the benefits.
- Preference to some with vested interest, which creates an imbalance in availing the scheme benefits

Collective farming and marketing

- SHGs has provided a platform for enhancement of farm based livelihoods, through collective approach, as evident through success stories of collective farming, collective purchase of inputs, collective market etc., but it has to be further scaled up by creating many support systems.
- Economics of scale is very important in collective approach to enhance farm based livelihood
- Crop based collective approach and also village based approach (based on the need) can support farm based livelihood.
- Collective farming and marketing has enabled creation of wage employment to farm families to some extent.

Market issues

- Price of agricultural produce fluctuates very much, causing problems in marketing
- Market intelligence support is much needed to small and marginal farmers, who always remain excluded from the supply chain, which is the main reason for exploitation by middle men.

Migration and Labor issues

- Migration of youth from villages to towns, urban and semi urban areas on search of better employment opportunity, is raising a concern on the future of farming and agriculture based livelihoods
- Demand for labor has increased off late for lack/reluctance of youth to engage in farming activities. MNNREGA program also has compounded the labor issue, since the labors prefer NREGA works rather than farm works.

Policy Recommendations

Assets/Land

- Concession on registration fees for lands registered in the name of women, to facilitate entitlement of land holdings in the name of women
- Legal environment to facilitate land leasing without any harm to either of the parties involved
- Facilitate land leasing in the name of SHG/ producer or livelihood groups
- Credit for purchase of agricultural land by landless agricultural laborer

Farm Inputs

- Counseling cum Service centers through Public Private Partnership: Counseling cum service centers can be established at block level to facilitate farmers to purchase right inputs at right price.
- Soil test based nutrient application can be facilitated by the above center.
- Price of fertilizers has risen at an alarming rate. Though integrated nutrient management principles are there, it is not widely followed. Farmers can be taught to adapt nutrient saving technologies to reduce the input cost.
- Combined management of water resources by community : maintenance of tanks and tank cascades, construction of farm ponds and community wells and following other water harvesting practices to use water effectively must be given due focus in State programs and policies.
- Enabling infrastructure for farm based livelihoods like using existing NREGA program to regenerate water bodies and create wage employment, integrating watershed programs with soil fertility management etc.,

Training and Capacity Building/Technology adoption

- Establishing Farmers Business schools instead of farmers field schools to empower farmers t to do agriculture as a business
- Technology and information should be made available at the door step of farmers. SHG and

other farmers group can be effectively utilized by giving proper training. Inclusive growth in villages will happen only then.

- Collective farming will facilitate widespread adaptation of a new technology at a faster rate.
- The above can be ensured through PPP model

Risks in Farming

- Tailor made products for crop, livestock and insurance of farm machineries. Government subsidy is available for group life insurance products like JBY. Similar support must be given to make crop, livestock and farm machinery insurance at subsidized rate.
- Education regarding crop/livestock insurance and its importance and other risk mitigation strategies should be given to farmers.

Farm Credit

- Creating a credit infrastructure at the community/village level so that timely and adequate credit is available to farm based livelihood.
- Timely and adequate Farm credit can be ensured if SHGs were used as a platform and the policies of the banks support such a change. Banks can extend their agricultural loan through SHGs/JLGs and exclusive institutions formed by communities for enhancing farm based livelihoods.
- Since livelihood intervention is more likely to absorb more investment the ceiling limit for SHG loans can be revised from Rs50000 to Rs100000 for farm based livelihood activity at the individual level.
- Products like Special savings for livelihood to facilitate such higher lending can be evolved.
- Differential rate of interest to agricultural credit availed by SHGs/ also for members within SHG
- Kissan credit cards can be extended to SHG members/SHGs/ engaged in farming

Accessing Government Schemes

- Training and capacity building to all farmers especially with focus on small and marginal farmers and SHG women, with complete details about the scheme and way of availing it.
- Brochures/leaflets regarding such schemes should be readily available at village level for any clarification
- Participation of officials from concerned departments in village level meetings like grama sabhas, meeting of CLG and such association of SHG members and other meetings
- Ensuring that all the schemes reach the needy without delay, through speedy action by relevant department with real concern for small and marginal farmers

Collective farming and marketing

- Small size of holdings is the major cause of reduction in productivity and profitability through farm based activities. Creating a strong exclusive social capital at different levels, which are either crop based or village based to facilitate collective farming and collective marketing is crucial. This will also ensure resource use efficiency for reaping maximum benefits, which is essential considering the presence situation of non-fertile lands, less water available and increasing cost of other external inputs.
- Creation of context based exclusive farm models depending on the existing resource availability and need of the people with focus on optimum resource utilization and long term sustainability is the need of the hour
- Collective farming is possible through contract farming and creating a nested institution of exclusively for farm based livelihood support like producer companies and through cooperatives. Crop based/village based groups and producer companies can be formed to support this process.

Market issues

- Decentralization of storage godowns at door step of farmers can be thought off. The concept of Community managed godown's can be promoted. Existing primary agricultural cooperative credit societies can also be made use of for this purpose which can provide warehousing facility and also loans against the product stored.

- There is no post-harvest processing support which leads to wastage of farm produce and also affects the price of the produce during over production. To mitigate this cold storage support for perishable commodities, value addition and processing of farm produce at village level etc. need to be established.
- Collective farming and marketing will pave way for farmers to market their produce directly to wholesaler's and even in retail, avoiding the problem of middlemen.
- Every farmer in the village should be made aware of the large scale market and day to day market price of the crop they cultivate through proper training and adoption of technology to the maximum extent.

Migration and Labor issues

- MGNREGA program can be linked to provide labor for small and marginal farmers
- The increasing labor problem pays ways for innovation and new business opportunities like organized supply of services like common vegetable nursery raising in vegetable intensive villages, collective paddy nursery raising and transplantation services through paddy transplanting machine through pre-order. This will also enable quick adaptation of technology like SRI by all farmers. Similar such innovative services can be created depending on the local needs. Supplying of farm labor through organized way is another business opportunity.
- Diversification of employment at village level which can be a secondary or tertiary non-farm employment based on local needs, will help to prevent migration of youth to urban areas.

A long term collective approach involving appropriate strategy is needed to address farm based livelihood issues. Context and area specific approach with real passion and concern, involving all stakeholders, state and central governments, NGOs, Banks, Insurance companies, Research institutions and private actors who depend on agriculture will make the farm livelihoods a vibrant one, which will enable greatly to reduce rural poverty.

Study on Enabling Models of Microfinance and Social Capital

Introduction

Delivery of microfinance services has been characterized by different approaches and models across the continents. In Indian context, microfinance has been evolving overtime embedded, largely, in the SHG framework. In fact, the self-help model based on the concept of the mutuality has been a predominant intervention under the enabling process facilitated by NGOs and building linkages with the Commercial Banks for micro credit delivery. Furthermore, the SHGs are conceived not just as a microfinance institution but as the development institution to address multiple dimensions of poverty, as a part of the poverty reduction strategy. What is more, the microfinance programme under the enabling approach as led to SHGs being federated and networked.

With a view to look at and document the benefits of enabling model from the perspective of social mobilization, institution building process, etc., Inafi India has commissioned a study, as part of its focus on microfinance and state of poverty on enabling models of microfinance and building social capital in Indian context with the following objectives:

Objectives of the study

a. To examine the role played by Enabling Models of microfinance in building social capital and also the expression of alternative principles.

b. To document the institutional development processes engendered by the enabling models at the grassroots.

c. To highlight the importance of social capital generated by microfinance in enabling and sustaining larger development work.

d. To assess the scalability of enabling models of microfinance from financial and development perspective.

e. To study the constraints faced by the development NGOs in their effort to promote alternative approaches in microfinance and look at the ways of furthering the cause of this approach.

f. The study would be based on a comparative analysis of selected Inafi India partners representing different regions.

The study has been entrusted to Institute of Rural Management (IRMA), Anand, Gujarat and has been completed by IRMA. The study has been conducted in eight member organizations of Inafi namely –

1. Nav Bharat Jagriti Kendra, Jharkhand
2. People's Rural Education Movement, Odisha
3. DHAN Foundation, Tamil Nadu
4. Sri Kshetra Dharmasthala Rural Development Programme, Karnataka
5. Pragathi Sewa Samithi, Andhra Pradesh
6. People's Education Development Programme, Rajasthan
7. Shramik Bharti, Uttar Pradesh
8. BAIF Development Research Foundation, Maharashtra

The summary of the findings of the study have been featured here:

Findings of the study

The organizations display several unique features about the nature and extent of coverage of the target population and provision of microfinance services. While all of them have focused prominently in targeting the needy in rural areas, some have identified the need to work in urban areas also. All of them have tried to focus on the poor and the disadvantaged groups specific to their regions and developmental programmes like the tribals, dalits, small and marginal farmers, laborers, and fishermen, especially the women among these communities. A highly mixed picture emerges with regard to the scale of microfinance outreach of these organizations. Due to multi-activity nature of these organisations, the extent of outreach has been determined to a significant extent by the outreach of their primary programmes.

About microfinance services, a common service that is promoted by all organizations is group level savings as per the capacity of the local members. The members are encouraged to save regularly to develop thrift habits and help accumulate individually and collectively reasonable amount of savings. Credit is the prominent service being offered or facilitated by the organizations. Across all the cases, groups are resorting to internal lending to meet short-term small and emergency needs of the members. The members of the groups are considering this as an important achievement of their collective action. Coming to the other loan facilities, wide variations could be seen in terms of loan amount and rate of interest charged. Diverse and bigger loans are being facilitated by those organizations which have enabled or obtained access to financial institutions for mobilizing larger resources. Further, those combining multiple models - enabling and linkage, have helped the groups to tap multiple sources of loans. Coming to the issues like adequacy, even though there are efforts by many to provide loans up to Rs. 50,000, the average loan size across is generally low indicating to the constraints faced in meeting loan needs adequately. A common positive feature noticeable in all the cases is the absence of coercion or pressure both in lending and recovery. The concern for client-protection has come more naturally to these models.

Generally, microfinance interventions are minimalist in nature relying on largely credit for making an impact on poverty. The cases indicate to a scenario wherein varied efforts are being made to establish linkages between microfinance and other interventions. The linkages attempted are both the result of the multi-activity nature of these organizations as well due to deliberate effort made to overcome the limitations of isolated approach. The promotion of community based organizations has also facilitated further strengthening of developmental links. The CBOs besides delivery of microfinance are serving as platforms to take up some relevant developmental initiatives in the field of health and livelihood. A few have even tried to set up specialized institutions for credit, insurance, and health to create sustainable links.

Overall, these microfinance interventions combined with developmental thrust have apparently made many positive differences to the social and economic conditions of the members. The access to capital has enabled members to augment and diversify their livelihood sources leading to improvements in income, asset-base and quality of life. Some of these positive changes are reflected in behaviour like good loan repayment performance, increased savings mobilization, and sustained relationship of members with the groups. Certain other qualitative transformations with potential for empowerment include perceived changes in the social conditions of women, development of leadership abilities, ownership over CBOs, and increased awareness and changed behaviour about social issues like health and education.

Policy Implications

Given the diverse scenario in the country, no single model may hold all the solutions for the problem of financial exclusion. The study indicates that enabling models based on community owned structures provide several advantages. By bringing community issues to the fore they help resolve to a great extent many of the contradictions that go with microfinance. There is also the continued relevance of NGOs both for financial and social intermediation. Given the reality, there is a need to clarify their regulatory position more clearly. The state governments also must help create a suitable legal framework for creating more empowering CBOs on the lines of self-reliant cooperative societies. The process of social intermediation to strengthen the groups and their CBOs needs considerable resources. The state, financial institutions and other public agencies must invest considerably in this direction. The other crucial support needed is that the state should guarantee availability of adequate cheaper funds towards meeting the loan fund needs of the microfinance sector. The state must devote a significant sum of money which can be used on a revolving basis to provide cheaper refinance facility to NGOs, CBOs and MFIs. Lastly, the linkages between microfinance and other developmental interventions need to be strengthened. The new National Rural Livelihood Mission (NRLM) needs to be leveraged suitably for this. These measures possibly can enable microfinance models become more social and holistic.

Introduction

Indian farming scenario is characterised by very large number of marginal and small holdings with an average holdings of less than 2 hectares per farm. Small and marginal holdings constitute majority of farming households and are exposed to multiple risks and vulnerabilities. The increasing fragmentation of operational holdings for farm production is one such risk. The recent survey on number of area of operational holdings in the country gives a tell-tale picture of the situation with 80% of all operational holdings being marginal and small and the share of marginal holdings (below 1 hectare) has further increased to 92.4 million out of the total holdings of 137.8 million and there has been further decrease in the average size of the holdings itself.

The fragmented and dispersed nature of marginal and small holdings of the farms across the country have posed major challenge to the national strategy to improve farm productivity/ production and thereby the farm incomes. This is more pronounced in rainfed areas as large number of holdings in rainfed conditions are in survival/subsistence level. The small and marginal holdings suffer from major disadvantages of lack of scale, lack of access to technologies, finances, markets which render them vulnerable and in a state of poverty and deprivation. They need, not just credit, but much more than that.

Size and scale do matter in transforming small scale farming into business venture and in dealing with markets. As a strategy to address this problem, farm collectives are being organized for scale and sustainability. In this respect, the enabling legal framework for organizing farmers under the producer companies has been a shot in the arm for the strategy. Producer companies have started springing up and those of small and marginal farmers are being promoted with the support of development NGOs, civil societies and philanthropies. Given their literacy level and economic conditions, promoting producer companies and putting a management in place has been the biggest challenge for the small and marginal farmers and this is where the role of enabling institutions has become crucial. For, it is not just start up but we need to keep engaged with these producer companies till such time they are in a position to manage their own affairs as a company.

Issues and challenges

- There are many challenges in the process of transformation. The key challenge goes with the process of organizing the small and marginal farmers under the institutional framework whether a producer company or a cooperative, etc. This is akin to the situation when we started off two decades ago in a similar manner organizing poor women as self-help groups and networking these self-help groups as a federation. Over a decade or more self-help groups of women has emerged as a movement and has become a focal point for women's collective action. Though there are different challenges when compared to the SHGs, the principles and the process based on the mutuality, cooperation and collective action would remain the same. There is, therefore, a need to organize the unorganized small and marginal farmers to make the small and marginal holdings, particularly, in rainfed and tank based eco systems more viable and sustainable.

- The second key challenge lies in building their capacity and confidence of the farmers to run their own organizations with a business perspective and orientation i.e. from mere cultivation, harvesting to organize an agri business venture by working together pooling the products, adding value to the produce, etc.
- Another related challenge is to separate the individual and collective spaces whereby the common infrastructure facilities required to handle the scale of operations need to be in place with clearly laid down policies in sharing the facility, using it to the maximum benefits of the farmers. The issue of mobilizing resources for investment for infrastructure would test their collective skill of resource mobilisation.
- Yet another important challenge is to mainstream these producer companies with Bank linkage process for smooth credit flow to the farmer producer organizations for effective management of the business operations.

Given these challenges what we have witnessed in the recent period is some of the piloting experiments done by the civil society/NGOs in organizing a few farmer producer organizations. There are mixed experiences coming out of this piloting experience which need to be shared across and appropriate lessons drawn including the areas requiring adequate policy support from the Government and hence the need for a National Conference to bring together the NGOs who have enabled promotion of such farmer producer organizations across the country. Being a Pan India network with members from different States and having experience in such work, INAFI India had sought to set a platform to share the experience and deliberate on future course of action to enlarge this current work to bring more small and marginal farmers under institutional framework and promote the agri business perspectives among these target groups.

Against this backdrop National Conference has been organized at Madurai on September 13, 2013 as part of Madurai Symposium 2013

EXECUTIVE SUMMARY

The daylong Conference had been inaugurated by Ms Meena Hemchandra, Principal & Chief General Manager, College of Agricultural Banking (CAB), RBI, Pune, following the key notes of Mr Ajit Kanitkar, Programme Officer, Ford Foundation, Delhi. Ms Meena Hemchandra recounted the engagement of CAB, RBI with the theme of the Conference and shared some of the policy issues and practical concerns in promoting and advancing farmers' producer companies (FPCs). The inaugural was followed by experience sharing by the members of the INAFI India – DHAN Foundation, GDS, SKDRDP, KMVS and also other development institutions such as AOFG. IDF, Scope Insight and ALC have shared their experience and their suggestions in building the capacity and systems of farmers' producer companies. Perspectives of Banks and their schemes for extending credit to FPCs have been shared by Mr S.S. Bhat, General Manager, Canara Bank, Head Office, Bangalore and Mr Satish Goel, Chief Manager, Punjab National Bank, Priority Sector & Lead Bank Division, Head Office, New Delhi and Mr Selvanayagam, Senior Manager, Indian Bank, Madurai. Mr C.S.R. Murthy, Deputy General Manager, Business Initiative Department, NABARD, Head Office, Mumbai, shared the initiatives of NABARD in promoting and financing farmers' producer companies. Mr K.N. Janardhana, Chief Project Coordinator, RSETIs shared the experience of Rural Self Employment Training Institutes in building the capacity of the farmers' producer companies. Mr Vasimalai, Chairperson, INAFI India, in his valedictory address reinforced the need for organizing exposure visits (Road Show) for those farmers getting initiated, to 5-6 well run producer companies for getting knowledge and clarity in moving forward. Mr M.Kalyanasundaram, Chief Executive, INAFI India wrapped up the proceedings setting the way forward process. The policy recommendations have been highlighted and the proceedings have been detailed separately.

POLICY RECOMMENDATIONS

Organizing Farmers' Producer Companies (FPCs) and scaling up

- The Conference recognizes the fact that although these are early days for producer companies, there is a momentum in the recent past in collectivization of small farmers in the FPC framework. The preferred choice for collectivization has been the producer company under the Central Company Law framework as it serves both the purpose of retaining the principles of cooperation as well as providing an enabling framework for self-management without outside interference.
- The Conference declared that organizing small farmers under the producer company framework would pave the way for raising economic profile from being a survival and subsistence mode to a sheer business proposition. This process of change to being an entrepreneurial farmer would impact (which has already started happening) the SHG eco system wherein the women members are taking to farming involving crop, animal husbandry and fisheries. Therefore, the Conference recognized the promising potential of farmers' producer companies towards greenpreneurship whereby women take the mixed farming as business ventures with focus on environmental concerns.
- As for the size and scale of the producer companies, the Conference came out with the recommendation that most critical aspect is adding value to the farmers and this process of adding value would determine size and scale of operations. Which means one size fits all approach won't work and the complexity and diversity of the context and the nature of farming brings greater challenge to the stakeholders.
- Flowing from the above recommendations and also the experience gained from the work so far, the Conference recommend a gradual approach keeping in view the capacity of the enabling institutions including NGOs/civil societies and also the farmers. Simple aggregation which may not involve processing of the produce and commodities but involve "buy, hold, grade and sell" would enhance confidence in the process of morphing from small farming to doing business.
- It has also been suggested that to gain confidence and trust of the farmers the above approach is necessary and more so success in the initial stages would trigger the process of small farmers getting organized under the FPC framework.

Capacity building

- Capacity building of producer companies right from the formation assumes crucial importance from the perspective of its long term sustainability. While building the capacity of the farmers is important it also recognized that the capacity of the enabling NGOs is also equally important as it impacts on the quality and effectiveness of the FPCs. It has been acknowledged that capacity building has several dimensions which include company related matters – its governance, accounting and other systems, etc, knowledge about the backward and forward linkages, markets (domestic and export), infrastructure including warehousing and cold chains, access to financial services, costing and pricing, technology related including IT applications for market intelligence and information and production related technologies, processing related technologies, etc. It is vital that given diversity of produce, the contexts where they are produced, the markets, the enabling institutions including NGOs should have clarity about the growth, to what extent they would be able to handle and support producer companies.

Given the challenges detailed above, in capacity building both for the farmers as well as the NGOs/philanthropies, well structured, sequenced and need based capacity building programmes/training needs to be planned for producer companies and NGOs.

- In this respect, to initiate and inspire both the constituencies namely small farmers and NGOs to get started, exposure visits to successful and well run 5-6 farmers' producer companies (as Road Shows) need to be organized to begin with. This would help the farmers/NGOs to identify the gaps in their own capacity and help structure the programmes for building their capacity.
- More importantly, as the capacity building programmes are for the benefit of the small and marginal farmers who are vulnerably poor, the Conference strongly recommend that grant support and not debt should be the mode of financing such capacity building efforts.

Establishing backward and forward linkages – end to end solutions

- The Conference came out strongly in favour of comprehensive package approach while enabling and supporting FPCs of small farmers as they have the disadvantages of lack of knowledge, capacities, scale, technology, etc. Which means the enabling process should look at both backward and forward linkages in organizing inputs and connecting to markets. There has also been an acknowledgement of the need for mechanization and infrastructure facilities for processing and marketing and that they should gradually, be built up in the initial stages instead of investing heavily (sunken cost) on infrastructure by the companies themselves, it could go for leasing and renting for easing the burden on the financial commitments.

Connecting FPCs to supply chain and value chain

- With adding value to the farmers as the prime objective of promoting FPCs, the Conference emphasized the crucial necessity of connecting the producer companies to supply chain/value chain. Sustaining the linkages with these chains for FPCs would remain a greater challenge, especially when multiple commodities are being grown and handled. Another factor which has been identified is that FPCs need not necessarily set up supply or value chain in all commodities and it would be prudent to capitalize on/connect to the existing supply/ value chains with well thought out support. As the FPCs move up the value chain and when the confidence and capacity of the FPCs and the supporting institutions reach high level with great risk appetite such ventures could be promoted.

Financing producer companies

- As has been often mentioned, access to capital remains one of the major stumbling block for the producer companies to start up or run their operations/scale up. Thanks to the policy initiative through the revised priority sector norms advised by RBI, Banks have expressed interest to engage with producer companies with both working capital and term loan facilities for operations and setting up infrastructure.
- More important, structuring of financial package with blend of grant debt and equity on a case by case basis would be of practical way forward. As already emphasised all capacity building efforts for the NGOs and the producer companies should be financed by grant.
- As for access to credit from Commercial Banks the producer companies require a special dispensation in terms of liberalised lending norms.
- Small farmers don't have much of capital to put in as equity in FPC and also the fact that they cannot offer collateral as they have none, the Banks should have an innovative way of lending with relaxed norms without reference to capital and collateral rather there is a need to look at the social capital of the farmers and their farming activities and plan.

Promotional grant for establishing producer companies

- Unlike the big farmers, small farmers lack capital and capacity to organize themselves into company. Philanthropies and mainstream institutions including Government and development institutions need to invest grants in promoting producer companies for a time frame for at least 3-5 years. This is very much similar to the building of social capital of women through SHGs and within federations in terms of recognizing the need for grant for promotion.

- In this respect, Small Farmers; Agriculture Consortium (SFAC) and NABARD and in the light of new Company act, CSRs of Commercial Banks need to invest in promoting producer companies and extend grant support for this process.

Fiscal sops

- Being the entities of small and marginal farmers', producer companies for a considerable period of time shall not be looked from a commercial perspective and taxed, be it income tax, VAT, service tax, etc., it has been strongly recommended that till such time these producer companies reach substantial threshold level of turnover (which requires wider discussions and consultations) no tax shall be levied and also fiscal sops like the ones extended to wind mills should be given to producer companies for establishing infrastructure facilities including warehousing and cold chains.
- Presumptive tax as being levied for small businesses could be thought of beyond certain threshold level rather than slab rates.

Adoption of producer companies

- There has also been a suggestion for the institutions like NABARD, RSETIs and even Banks CSR to adopt producer companies to create models of excellence with the continuous handholding support in partnership with development institutions.
- In fact, NABARD/Banks should reach out and identify the producer companies and adopt a project lending approach. The awareness among the Branches/zonal offices and training them in the innovative ways of lending to producer companies shall be adopted by the Banks.

Convergence and collaboration

- All said and done, the Conference highlighted the need for convergence of stakeholders involving Government, Commercial Banks, NGOs, philanthropies to work together in identifying the companies with potential to enable them to scale up and make them grow bigger in terms of agri business and create models for emulation. And this presents new opportunities for partnership and collaboration among the various stakeholders.

Enabling and sustaining financial inclusion

Suggestions of Inafi India

a) (i) Sustaining and advancing the SHG Bank linkage

While many of the SHGs, particularly, in the South would now start enjoying cash credit, there are many more SHGs in North and East India which are even now struggling to open Bank accounts. We are experiencing a waning enthusiasm among the Banks to link the SHGs much less reaching out for the linkage. With increasing awareness among public and particularly, the excluded categories about the benefits of availing financial services from the Banks, there is a greater urgency and need more than ever for speeding up the Bank linkage process. In the recent past, there has been distraction with few MFIs queering the pitch for the linkage process and some of the Banks went for the option of big ticket loans to MFIs without due regard to the unhealthy and unethical practices of these MFIs which had negative impact on the SHG eco system with over indebtedness, suicides, etc. Therefore, there is urgent need to refocus and reinvigorate SHG Bank linkage placing it on the top of the social Banking agenda/priority sector lending in our country and let all other lending programmes complement this approach.

To make sure that this process is monitored and smoothened at the district level, the three functionaries from Banking and regulatory side – the Lead Bank, the District Development Manager of NABARD and the concerned Lead Bank Officer from Reserve Bank of India should be charged with this responsibility and the mechanism institutionalized as a distinct financial inclusion promotion and monitoring process of DLCC.

This monitoring process at district level would be able to ensure no eligible groups would go unlinked with the nationalized banks/RRBs/Cooperative Banks. This timely linkage through monitoring would also serve as an incentive to the SHGs to function better with financial discipline.

The financial inclusion cell of the Department of Financial Services, Ministry of Finance could oversee this process, smoothen the rough edges and facilitate smoother, faster inclusion process. In this respect networks like Inafi India would provide the facilitating connect between the policy and practice.

b) SHGs as Business Facilitators (BF first) – institutionalizing the process:

Like facility of cash credit which reflects the experience and confidence on the maturity of SHGs and their ilk, the country needs to recognize SHGs and its federations as Business Facilitators and Business Correspondents. As the development stakeholders have been witnessing, SHGs have assumed the role of NGOs over time in terms of facilitating linkage process and also working with local bodies, Government bodies, etc. We would, therefore, urge upon the Ministry of Finance to declare SHGs as preferred BF with due diligence process on the quality, strength and maturity of the SHGs. This is something which is happening in fits and starts, but need to be institutionalized. This would be a great incentive/ recognition for the SHGs as institutions. In the long term, it is not only going to bridge the gap in the financial inclusion but also build a sustainable banking relationship for the women and other disadvantaged people.

(ii) Graduation from BF to BC

After being BF first and after gaining good experience and confidence of Banks, gradually SHGs move up the chain from BF to BC. In fact, Banks would be coming forward to graduate them.

c) (i) Credit lines to producer companies in the farm sector

Thanks to the enabling Company Law under the central dispensation. Producer companies of farmers are being promoted, particularly, to support small and marginal farmers who otherwise lack access to technologies, lack of volumes and scale, lack of access to markers and weak negotiating position for pricing. Interestingly, many producer companies are emerging from the eco system of self-help groups and its networks, farmers' clubs and farmer groups who have been organized through microfinance and water.

Producer companies typically provide all input services, aggregation of produce, marketing with better pricing on the strength of larger volume. Inter-alia, they are required to procure, as they aggregate, larger volume of produce from the individual member farmers and there is an urgency and compulsion to make payment to the individual member for larger part of the produce procured if not, the full amount. Producer companies being promoted and owned by small/marginal and economically disadvantaged farmers are not having enough capital for the input services and the procurement of the produce. They require credit facilities to meet the requirement of the procurement but would not be in a position to offer collateral in the initial period as there is no or less capital nor assets. However, credit lines to producer companies could be secured by the produce being given by the members.

Given the above scenario, what we experience is none too enthusiastic response of the Commercial Banks to the producer companies and where they are inclined, they insist invariably on the collateral other than the prime security of the produce. As explained above, producer companies in the initial years of nurturing growth would not be having assets to offer as collateral. We would, therefore, urge upon the Ministry of Finance to formulate an appropriate credit facility to producer companies without collateral.

(ii) Loans to producer companies as important part of priority sector lending

Moreover, Nair Committee constituted by Reserve Bank of India has recently submitted its report on revisiting priority sector lending norms. We find that there has been no specific mention about the producer companies/farmers cooperatives and the credit being extended to these entities as part of the priority sector lending. Government of India/ Reserve Bank of India needs to recognize the utmost importance of credit facilities to producer companies in the context of creating enabling conditions for the farm sector and special status needs to be accorded under priority sector lending for loans to producer companies.

d) Credit rating of Microfinance Institutions

As a development network in microfinance sector INAFI INDIA is concerned about the problems faced by the not-for-profit MFIs arising out of insistence of commercial banks on rating. In the first place, the rating is superfluous as commercial banks have greater capacity to assess and appraise the credit line requirements of not-for-profit MFIs. More importantly the price of rating being quoted well above Rs. 1 lakh is simply unaffordable (some agencies even quote well above Rs. 3 lakhs) for the not-for-profit MFIs as they operate on a thin NIM of two to three percentage given their poverty focus. And the rating is not "one off" affair and adds to the cost burden of not-for-profit MFIs.

NABARD support for rating is for one time and first time only and not for subsequent ratings. We would like to inform you with anguish that rating has become a stumbling block in reaching credit to the poor by this not-for-profit MFIs in remote areas of the country. We would therefore like to make the following suggestions on this issue for operational facilitation by Finance Ministry/RBI in the financial inclusion process.

1. To advise commercial banks not to ask for rating of not-for-profit MFIs, at the minimum up to the individual banks exposure of 50 crores and the Banks should bank upon their internal appraisal process. **In any case, it is extremely desirable and practical to make the rating as optional even for limits above 50 crores**
2. Either NABARD or commercial banks should bear the cost of rating above the thresh hold indicated above as a part of their contribution to the financial inclusion.

e) Micro insurance through mutual insurance

Conceptually, SHGs are financial intermediaries at the grass roots as it takes savings/deposits through the process of thrift and provide loans to its members. This alternative financial framework has yielded larger development dividends (more than financial) leading to organizing the unorganized poor and promoting institutions of poor at the grass roots through networking SHGs for other development interventions. As a logical extension of the client ownership of savings and credit operations, the initial experiments through insurance mutuals which provides a space for flexibility and innovative product design compensation/indemnity, etc have been effective in accessing risk products. Like savings and credit operations, these mutual insurance programmes have been promoting literacy about how the insurance programme operates. Although, IRDA as a regulatory has been watching these initiatives, an enabling regulatory framework would accelerate the process of access to insurance services both as a mutual solutions and also mainstream insurance product through mutual programmes.

Our suggestion to the Government is that there are two ways through which the mutual programme could be supported and scaled up:

i) As a pilot, the mainstream companies could be urged upon/directed to fulfill the regulated norms for the social sector for insurance coverage – life and non-life through promotion of community based insurance mutuals with the enabling support of development institutions/ NGOs.
ii) The General Insurance Corporation as the only reinsurance company in the country shall be asked to support the mutual initiatives with appropriate reinsurance solution in consultation with the mainstream companies, mutual insurance communities and the development NGOs enabling this process.

Microfinance Bill

Financial Inclusion and the implications of Microfinance Bill

Role of micro credit institutions

SHG Bank linkage programme has emerged as a signature programme of financial inclusion agenda to connect the excluded poor to the banking system. SHG programme is also the predominant microfinance programme in the country, although SHGs conceptually and in practice is a development institution where microfinance services have become an important part of the approach to address poverty. India chose multiple models and multiple methods of delivery of microfinance services. Commercial Banks, RRBs and Cooperative Banks as part of the mandate of the priority sector lending has been the dominant players in the microfinance sector, connecting with SHGs. Along the way, nonetheless, emerged micro credit institutions as supplement to the Banks to purvey micro credit. The reality is that they have also been reaching non poor segments of the population and this form the substantial portfolio for these micro credit institutions. Therefore, unlike SHGs, the focus of micro credit institutions is not singular on poor segments of the population.

The Government and the Reserve Bank of India needs to be complimented for providing enabling framework whereby several kinds of micro credit institutions in various legal forms have emerged to bridge the gap left by the Commercial Banks across the country. While the MFIs licensed under NBFC framework are being regulated by the Reserve Bank of India, the other types of micro credit institutions (societies, trusts, etc.) are not regulated as they are relatively small players and not being of systemic importance nor do they allowed to access thrift or savings. These small micro credit institutions are being effectively supervised by the lenders or donors. In any case, as these small MFIs are off-shoots or appendages of NGOs, they were primarily on a charity mode and not for profit. Moreover, these institutions are few and far between and are effectively curbed/controlled by the lenders and donors as the primary objective is charity. Therefore, it needs to be appreciated that micro credit institutions which ever may be the type and form, do have a place in the financial sector playing effective supplementary role to the Commercial Banks.

When micro credit institutions went awry – unhealthy and undesirable practices

Given the fundamental principles of microfinance, the fair expectation from the sector is that they should not exploit the poor in terms of pricing of the credit and the lending practices. Unfortunately, a handful of MFIs who accessed the huge amount of public funds through Bank credit have belied the expectations and ran foul of normal prudent lending practices and pricing. The pricing exceeded even 50% and on an average of hovering around 30-40%, coupled with coercive recovery practices, shaming people in public, multiple and excessive loaning, leading to debt trap through over indebtedness and thereby spoiling the credit culture of the SHGs assiduously built over time. RBI was jolted out of their benign disposition to MFIs to respond with Malegam Committee recommendations to close the regulatory gaps. The other collateral damage would be that when the micro credit institutions are allowed to supplant the Bank linkage process the poor would be weaned away from the banking system, defeating from the purpose of financial inclusion for accessing the affordable financial services - because, MFIs can never match banking system in terms of affordability in pricing. The other serious and negative impact is that by over indebtedness, the savings have drastically fallen which cuts at the very foundation of the SHGs - therefore, leading to a situation of destroying the SHG movement when the micro credit institutions have free run of unbridled lending and unhealthy practices.

There is a regulatory framework for microfinance sector and MFIs too under RBI dispensation

i) Indian microfinance sector is unique, in that unlike other countries in Asia and Africa, the commercial banks, RRBs and cooperative banks are the major and predominant players and they are well regulated by Reserve Bank of India. In any case, SHG Bank linkage programme is the national agenda for financial inclusion and it comes under the existing regulatory framework.

ii) So is the case with the larger MFIs licensed under NBFC framework by RBI. Given the past history of non-banking players – NBFCs playing havoc with the savings of the public, RBI has rightly been rolling back the savings and the deposits of the general public from the NBFCs and very a few NBFCs have been allowed now to access public deposits under tight regulatory framework.

iii) Regulatory gap in pricing by MFIs and their lending practices has been addressed by Malegam Committee of RBI. Given that, some of the MFIs have resorted to charging high rates of interest, adoption of unhealthy and unethical lending and recovery practices, RBI has further strengthened the regulatory guidelines for the NBFCs/MFIs, following the Malegam Committee recommendations addressing the regulated gap from the consumer protection perspective with regard to the interest rates, lending and recovery practices.

iv) Dispersed regulatory and supervisory mechanism already exists for the small time NGOs/MFIs and not for profit MFIs through the commercial banks and Lead Bank officers. As these small time MFIs access debt capital from

Commercial Banks for the lending operations, Commercial Banks are better placed to supervise these small time MFIs (non NBFC) and comply with the Malegam Committee recommendations. Furthermore, these not for profit, non-NBFC MFIs are mostly enjoying income tax exemption as they are receiving grants from Governments and donors and their lending operations are small and in any case should they be indulging in commercial operations they invite the risk of losing the income tax exemption which is their major source of funding. Therefore, the existing regulatory and supervisory framework takes care of regulating the microfinance sector as a whole including the MFIs (both NBFC and non NBFC) and what is required is constant surveillance by the RBI and NABARD and the Lead Bank rather than fresh regulatory framework.

MF Bill – negative and dangerous consequences

As we argued as above, there exists an adequate regulatory framework for the micro credit institutions after the Malegam Committee recommendations have been implemented by the Reserve Bank of India, which closes the regulatory gap relating to pricing, unhealthy and unethical lending practices not focusing on poor etc. There are other serious and risky consequences which would hit hard the poor and their movement which is elaborated below:

The following are the concerns and points 1, 2 and 3 are of grave nature

1. **Savings of the poor at peril:** The proposed legislation provides for establishing MFIs with a very low capital base of Rs.5 lakhs which is a clear recipe for unmitigated disaster. This would open the flood gates for flyby night operator type of institutions to offer thrift services to mop up savings. Past experience in NBFC sector and the continued defrauding by many financial institutions happening now and then, wherein people lost their savings to unscrupulous operators, will serve as a grim reminder of the **huge risks involved in allowing tiny entities to accept savings.**
2. **Threat to SHG Movement:** Allowing tiny entity MFIs to access savings of the poor would have a disastrous consequence damaging the very foundation of the SHGs, being the savings. The Self Help Groups across the countries have demonstrated effectively that they can handle savings, use the savings for their own internal lending of small amounts and also save with commercial banks with assurance of safety and security. Some of the matured SHGs even boast of savings of high order of 5 lakhs and above and many are building up substantial savings of this order. The bill would facilitate emergence of large number of MFIs and would disrupt and damage irretrievably the virtuous culture of savings among the SHGs and will set in motion the process of harming the SHG movement and disintegration.
3. **Counterproductive to the financial inclusion:** It is a matter of concern that the bill is quite oblivious to the potential for greater damage and harm to the agenda of financial inclusion. This national agenda seeks to connect the poor, rightly so, with the banking system for affordability which no other non-banking financial players can match, given the intrinsic advantage of banking system with the kaleidoscopic business mix. What has been proposed in the bill for delivering the whole range of financial services through MFIs which would not only wean away the poor clients from the banks but leave them with a ersatz system. Therefore, the financial inclusion would not happen in true sense and the banks would be a far cry for the poor women.
4. **Alternative mechanism to provide savings and other financial services through linkage with mainstream commercial banking system:** The extant regulatory framework currently under RBI dispensation has been serving the dual purpose of development and regulation quite well. Acting in concert with NABARD, RBI has taken several initiatives to promote, develop and regulate microfinance sector. The recent policy initiative of Business Facilitator and Business Correspondent Model coupled with guidelines on door step banking would go a long way in developing the Microfinance sector in orderly fashion. The Microfinance NGOs, MFIs and Federations of SHGs would

assume the role of business facilitator and business correspondent for enabling access to various microfinance services including savings, credit and insurance services, remittances etc. provided by the commercial banking system. Under this model, the poor will be linked with commercial banks by the business facilitator and business correspondent model for microfinance services. **The bill has not taken the cognizance of these initiatives in promoting the growth of the microfinance sector and instead seeks to allow the MFIs to mobilize savings.**

5. **Post Malegam Regulatory Framework:** Following the Malegam Committee recommendations, Reserve Bank is already implementing the regulatory framework including capping of the interest, margin (spread) cap so that usurious tendencies are avoided and banished. While the Malegam Committee regulatory guidelines are in place and enforced, the need for another legislation for regulation of microfinance sector is superfluous.
6. **MFIs as financial super markets:** The bill seeks to give MFIs the status of mini financial super markets. The bill envisages something which even banks have not attempted or hesitant to tread. The move to license the small entity MFIs to offer the whole range of financial services from savings, credit, insurance, remittance and even pension is fraught with serious consequences for the financial system. Like savings and credit will these MFIs deliver the insurance and remittance services? which means they would underwrite policies for many risks, transmitting money, and even offering pension services, etc. It is difficult to appreciate how the small entity of MFIs would be able to offer such wide ranging services that too with a low capital base of a pittance of 5 lakhs.
7. **Defining micro credit**: The Bill seeks to raise steeply the floor for micro credit from the present level of 50,000 (RBI norms) to Rs.5 lakhs with the flexibility to enhance to 10 lakhs per individual. The loan limit of 5 lakhs is quite inappropriate for defining loan as micro credit from the poverty lending perspective and will crowd out the deserving people from accessing micro credit. In other words, this would lead to exclusion process rather than connecting the poor to the micro credit delivery system.
8. **Cost of regulation and feasibility:** The framework of regulation proposed in the bill entails regulatory load of huge proportion across the country and does not take into cognizance the effective alternative systems that could do the job better. It is going to be a regulatory nightmare to centralize such a huge responsibility.
9. **Need for a prudent stance:** On a balance of consideration, it can be clearly seen that micro credit institutions do have a place in the sector as a complement to the banking system to bridge the gap or where Banks are not responding or falter and this choice of access to credit through micro credit institutions would help the poor. And given the high risks involved, micro credit institutions should never be allowed to touch the thrift or savings or deposits of the poor. The MFIs, the Bill envisages to provide/deliver apart from credit - savings, insurance, remittance and pension services. If the intent of the Bill is that these micro credit institutions are only enablers or facilitators to link with the insurance companies as agents to provide insurance and pension services, the system is already in place and the existing regulatory framework of IRDA and PFRDA has already started implementation with many micro credit institutions acting as agents, business correspondents/business facilitators for the insurance companies. The same goes for remittance, where the MCIs do play the agent role as business correspondents and business facilitators as RBI has already issued guidelines 5 years back for this enabling provision. And of course savings should never be allowed as the RBI has already signaled a roll back course of asking of deposit taking NBFCs to reduce their liabilities to the public and Commercial Banks should ultimately be the destination for the savings of the public. Therefore, it is most prudent to allow so called MFIs as MCIs only within the existing

framework or the framework being proposed by the Bill.

Role of State Government

The Andhra experience of few NBFC MFIs (regulated by RBI) has brought to the fore the urgency of consumer protection against the usury and unacceptable lending practices. Given this important issue and also the fact that limitations of Reserve Bank as a regulator in responding to the issues and problems of urgent nature, the State Government shall have the right of peremptory intervention notwithstanding the Central legislation to respond fast to the issues and emerging situations of public interest. Therefore, there should be an enabling provision in the Bill for the State intervention from the perspective of consumer protection and not from the perspective of regulation supervision per se.

Appropriate sizing of MFIs

From the perspective of consumer protection, as the recent experiences in India and elsewhere, not to speak of unsavory episodes of some private banks in dealing with credit cards, tell us the compulsions are far greater to take care of the debtors'/borrowers' interests in the same breadth as that of systemic stability and depositors' interest in the regulatory scheme of things.

Keeping this in view, the NBFC MIFs need to be rooted in the local context say a state or a region in close interaction with the clients. As we look ahead at the architecture for the NBFC MFIs, we cannot help appreciate the relevance of the principle of Small is Beautiful. This is all the more necessary not only from the client perspective in terms of access and comfort but also from the perspective of contagion effect on the larger financial system. The much talked about **Too Big to Fail** principle could not be more appropriate for NBFC MFIs given the current happenings.

Therefore, the orderly growth of microfinance sector would be greatly served by **appropriate sizing** of the MFIs. Already there are strong and growing evidences on the ground that operations of the some other big MFIs are spinning out of control with its inimical impact not only on the microfinance sector but also with serious systemic implications for the financial system. There has been too much concentration of risk with large exposure of commercial banks funds to big MCIs.

Therefore, it is time that MFIs shall not be allowed to become too big with country-wide operations raising their stakes very high. Like **RRBs and LABs**, RBI would do well to have a policy and regulatory framework whereby MFIs could be **state level** players or at best **regional level**. **Let hundreds of small MFIs are nourished to bloom** which would serve the ends of financial inclusion more effectively by larger outreach and also rooting such institutions among the communities in the most cost effective way with local employment opportunities.

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Members' profile as on 31 March, 2013

Name of Organisation	Savings Outstanding as at 31.03.2013		Loans Outstanding as at 31.03.2013		Micro insurance – Type of risk cover and its coverage			
	Number of savings account with SHGs / Coops / Banks	Amount of savings Outstanding (In million)	Number of loan accounts	Amount of loan outstanding (In million)	No. of people covered Under Life Insurance	No. of people covered Under Health Insurance	No. of coverage under Livestock insurance	No. of coverage under Crop insurance
Action for Social Advancement (ASA)	--	0.56	3800	14.8	6100	Not yet	Not yet	Not yet
Aga Khan Rural Support Programme (AKRSP)	7900	4.6	6100	10.5	Not yet	Not yet	Not yet	Not yet
BAIF Development Research Foundation	90597	87	90957	110	3042	2407	Not yet	Not yet
Centre for Community Development	7533	6.6	4569	22	412	Not yet	Not yet	Not yet
Dhan Foundation	446000	1721	454580	3149	576000	93700	8300	19140
Grameen Development Services (GDS)	25980	22.2	1055	56.2	3000	--	515	--
Integrated Village Development Project (IVDP)	136288	1800	Sangha Loan: 130000 Bank loan: 99016	1480 1680	1,35,000	Not yet	Not yet	Not yet

Members' profile as on 31 March, 2013

Name of Organisation	Savings Outstanding as at 31.03.2013		Loans Outstanding as at 31.03.2013		Micro insurance – Type of risk cover and its coverage			
	Number of savings account with SHGs / Coops / Banks	Amount of savings Outstanding (In million)	Number of loan accounts	Amount of loan outstanding (In million)	No. of people covered Under Life Insurance	No. of people covered Under Health Insurance	No. of coverage under Livestock insurance	No. of coverage under Crop insurance
Institute for Integrated Resource Management	792	0.5	1715	5.7	600	600	500	Not yet
Jan Chetna Sansthan	9,408	11	2,054	13	2,054	Not yet	Not yet	Not yet
Kutch Mahila Vikas Sangathan	11,000	18.5	1,438	21.2	1,323	Not yet	Not yet	Not yet
Margdarshak Sewa Sansthan	3,225	0.3	973	0.1	Not yet	Not yet	Not yet	Not yet
Sangha-mithra	8,900	262.5	1,25,874	1,049.74	7,076	Not yet	Not yet	Not yet
Nav Bharat Jagriti Kendra (NBJK)	7,198	12.5	8,829	81.6	Not yet	Not yet	Not yet	Not yet
People's Education and Development Organisation (PEDO)	39,567	20.2	31,267	20.9	Not yet	15,305	3,200	Not yet
Peoples Rural Education Movement (PREM)	41854	43	39752	10	978	Not yet	Not yet	Not yet

Members' profile as on 31 March, 2013

Name of Organisation	Savings Outstanding as at 31.03.2013		Loans Outstanding as at 31.03.2013		Micro insurance — Type of risk cover and its coverage			
	Number of savings account with SHGs / Coops / Banks	Amount of savings Outstanding (In million)	Number of loan accounts	Amount of loan outstanding (In million)	No. of people covered Under Life Insurance	No. of people covered Under Health Insurance	No. of coverage under Livestock insurance	No. of coverage under Crop insurance
Pragathi Seva Samithi	18600	.02	20230	189	18500	Not yet	Not yet	Not yet
Shramik Bharti	3200	36	15270	44	1800	Not yet	Not yet	Not yet
Shri Kshethra Dharmasthala Rural Development Project (SKDRDP)	25,97,000	15,310	23,01,945	25,930	8,23,537	93,00,642	56,615	Not yet
South Indian Federation of Fishermen Societies	4728	10.9	4354	97	15225	Not yet	Not yet	Not yet
Initiatives for Development Foundation (IDF)	22,500	41.5	14,190	607	--	--	--	--
Peermade Development Society (PDS)	40,000	16	18,400	45	2700	850	--	--

MEMBERS' DEVELOPMENT BRIEF

Members of the Inafi India network, particularly development NGOs engaged in addressing poverty through multifarious interventions and one among them is microfinance services. Members don't run pure financial services institution for delivery rather establish alternative financial institutions based on community ownership such as Self Help Groups (SHGs) and cooperatives and promote bank linkage. Members adopted either microfinance + plus or plus microfinance approach with microfinance preceding other development work or development interventions succeeding microfinance intervention. Members also recognize that the microfinance programmes have been contributing a great deal to the continuity, stability and sustainability of the development operations. What is more, it is building and strengthening social capital. Leveraging social capital generated by microfinance operations has been the distinct feature of the Inafi members' work for larger development intervention involving health, education, gender empowerment, livelihoods, etc. It is, therefore, not fair nor just to capture only the microfinance numbers on the portfolio which would not be a true reflection of the members work in addressing poverty. It is felt necessary to write about the members work briefly beyond microfinance.

Aga Khan Rural Support Programme (AKRSP)

(www.akrspindia.org)

AKRSP is working in 1600 villages in three states – Gujarat, Madhya Pradesh and Bihar with major emphasis on natural resource management and farm based livelihoods is agricultural programme covering vegetable cultivation and dairy remains flagship programmes. AKRSP is also engaged in promotional health programme with a project on potable drinking water. They are also working in education programme with learning support centers for children at the age group of 6-11 years. The agricultural livelihood programme reaches more than 20,000 farmers.

Action for Social Advancement (ASA)

(www.asaindia.org)

A is essentially livelihood promoting organisation for the poor people through natural resources development and farm based livelihoods. It operates in states of Madhya Pradesh and Bihar covering more than 1000 villages with outreach of 1,20,000 families. Microfinance is embedded in the water resources development through minor irrigation, system of rice intensification (SRI), agri business promotion for small and marginal farmers through Producer Company and capacity building of poor communities in the livelihood systems. So far, 6 producer companies have been promoted. ASA is also involved in irrigation management through participatory approach and runs farmers' field school.

BAIF Development Research Foundation (BAIF)

(www.baif.org)

BAIF is primarily focused on promoting and advancing rural and tribal livelihoods. Microfinance programme based on SHG and cooperative system has been initiated to support main activity of livelihood. BAIF is working in -9 states with its celebrated Wadi model for tribal population which is an orchard component and marks the significant contribution to the development sector. Cattle improvement programme, gender empowerment and mainstreaming, value addition for farm products and marketing support are among the important development interventions.

BAIF is reaching more than 4.4 million families spread over 80,000 villages in 16 states from Maharashtra to Tripura, Bihar to Punjab and its cattle improvement programme has reached almost 1 million cows and buffaloes. Its water conservation programme covering 3.4 million hectares and benefiting 1.2 lakh families has resulted in improving crop production by 30-35%. Under Wadi programme 62,500 hectares have been upgraded and transformed into fruit orchards reaching 2 lakh tribal families in 9 states.

BAIF is adopting holistic approach for rural in creating, enhancing and sustaining livelihood opportunities by maximizing utilization of locally available resources. Besides Wadi, sericulture has been promoted for tusser silk in Maharashtra. Another significant initiative under livelihood is the agri business with the promotion of Producer Company called Vasundhara Agri - Horti Producer Company Ltd (VAPCOL) with the membership of 49 tribal producer cooperatives in Maharashtra, Karnataka, Rajasthan, Madhya Pradesh and Chattisgarh states. Women empowerment with special focus on health care, sanitation and capacity building is being promoted and the SHG members take part in this process. Community health services are being promoted in rural areas by BAIF focusing on health education of women and children.

Centre for Community Development (CCD)

(www.ccdindia.org)

Centre for Community Development is working in Gajapathy district of Odisha, reaching out to 673 tribal and rural villages especially focused on promoting livelihood for women and their economic empowerment. CCD is promoting women enterprises. It is also involved in natural resource management.

DHAN Foundation

(www.dhan.org)

DHAN Foundation seeks to address poverty through multiple development programmes. The Foundation is working in 13 states reaching nearly a million poor. Microfinance and water are the two flagship programmes of DHAN. Kalanjiam Community Banking programme is a microfinance centric developmental model with emphasis on organizing unorganised poor, building institutions of SHGs and federations, promoting bank linkage for financial services and initiating other development interventions to address multiple dimensions of poverty. The Self-help Groups and federations of Kalanjiam Community Banking programme, besides, microfinance including savings, credit and insurance, have been focusing on livelihoods, promotion and deepening health intermediation, total sanitation. The health intermediation has following components:

- Reducing anemia among mothers and adolescent girls
- Reducing malnutrition among children
- Reducing morbidity among mothers and children
- Increasing health seeking behavior among poor households involving self-help governance process and linkage with the primary health centres and sub-centres more importantly behavior change communication.
- As part of health programme, sustainable health care advancing scheme (Sugam) has been initiated for providing quality and timely health care services at affordable cost.
- They have opened two hospitals one at Theni and other at Madurai. For this purpose, with people ownership.

Health intervention also covers HIV/AIDS awareness, prevention and treatment under the ART framework. The federations of Kalanjiam Community framework are working with DRDA for promoting total sanitation project and for clean water.

Grameen Development Services (GDS)

(www.gdsindia.org)

GDS is essentially livelihood promoting organisation for the rural poor working in the states of Uttar Pradesh, Rajasthan and Bihar. The basic framework for livelihood promotion depends on the SHGs and its networking as federations. As a part of livelihood initiative, GDS is also propagating SRI system of rice intensification. Gender empowerment and mainstreaming is another important part of development intervention of GDS while working with SHGs and its federations. GDS acts as a livelihood resource institution for many small and upcoming NGOs in eastern UP, Rajasthan and Bihar.

Institute of Integrated Resource Management (IIRM)

(www.iirmne.org)

IIRM is working in two north-eastern states of Assam and Arunachal Pradesh with its primary objective being science and technological support for livelihood, particularly farm based and also welfare programme for the poor. SHG framework is adopted for the microfinance programme for sustaining the livelihoods. As part of its livelihood initiatives, IIRM is supporting dairy units, piggery and duck rearing. Technology based livelihood support programme, particularly vermin compost supporting improved agronomy practices for medicinal plants, community forest and also low cost technology transfer for sustaining agriculture. As part of the welfare programme, it runs family counselling centre to facilitate women to address the issues of health and education. It is also involved in promoting handicrafts programme in two clusters in Assam for encouraging local artisans.

Integrated Village Development Project (IVDP)

(www. ivdpkrishnagiri.org)

IVDP seeks to address the poverty of women through socio economic development process under the SHG framework for women. Besides the livelihood focus for the SHG members, IVDP is working on water, sanitation including safe drinking water, hygiene and housing for poor. Under the livelihood initiative, it is focusing on promoting micro enterprises for women. Under its primary education initiative, IVDP runs a school for 200 children comprising mostly of girl children from deprived and marginal community of scheduled tribe. As many as 1 lakh houses have been constructed and renovated for SHG women. During the year 2010-11, scholarship and educational materials, accessories support programme amounting to Rs.2.5 crores have been distributed.

Jan Chetna Sansthan (JCS)

(www.janchetna.org)

JCS is working in 106 villages of Sirohi district of Rajasthan state with women empowerment as primary focus. Livelihood, panchayat governance are other priority areas besides microfinance under the SHG federated framework. Leveraging the social capital of the SHGs, JCS is promoting farm based livelihoods, particularly horticulture and dairy for the women members of SHGs. The goal of the dairy is to have a network of producer companies connected through a supply and value chain and under the horticulture, JCS is aiming to encourage members for value addition of the horticulture produce for better marketability and pricing. The empowerment is focused particularly on economic empowerment and strengthening the governance with its SHG members in predominant tribal areas.

Kutch Mahila Vikas Sangathan (KMVS)

(www.kmvs.in)

KMVS works for the holistic empowerment of women in Kutch district of Gujarat and support right based approach for empowerment. Building life oriented literacy, reproductive health with focus on reducing maternal and infant mortality rates, health awareness and literacy focusing institutional delivery for women and capacity building of women involved in preserving and advancing the traditional skills particularly embroidery are the interventions. KMVS works with more than 1500 artisans to promote the traditional art and livelihood. Recently, KMVS has initiated a district level platform for urban women namely Sakhi Sangini to raise their voices so as to work on the priority issues. Housing for urban poor is also the focus and part of this work. Another important initiative is on fisheries related livelihood activity and 4 federations namely Ujjas Mahila Sangathans have been promoted.

Myrada/Sanghamithra Rural Finance Services

(www.sanghamithra.org)

Sanghamithra is the part of Myrada family which is a well-known development organisation with long track record of development work across the development spectrum - natural resource management, livelihoods, health and education programmes. Sanghamithra is delivering micro credit services to the self-help groups promoted by Myrada and also other NGOs. Sanghamithra Rural Financial Services is involved in financial access for micro credit for both urban and rural contexts with specially designed programmes and packages focusing on development. Sanghamithra is working in the states of Karnataka, Tamilnadu and Andhra Pradesh, reaching more than 20,000 self-groups. Myrada has been working on graduated self-help groups and its federations as a localized resource centres for further group promotion and expansion.

Nav Bharat Jagriti Kendra (NBJK)

(www.nbjk.org)

NBJK is pursuing integrated model of development, focusing on the deprived communities touching upon livelihood, education, health services and leadership. It is operating in states of Jharkhand and Bihar. In education, NBJK runs a Bridge Camp School for the benefit of girl's students of scheduled Caste and Tribes, 100 remedial coaching centres in 69 villages benefiting around 4000 students. Further, 9 primary education centres have been started in Patna slum area, besides its Spandan initiative for providing education to children with cerebral palsy and mental retarders. As part of its health programme, NBJK established two eye hospitals namely Lok Nayak Jayaprakash hospital in Paherd village of Hazari Bagh district and another one in Santal village of Pargana district providing quality eye care services. Through its PRAYAS programme, NBJK seeks to provide improved sexual reproductive health status and to reduce vulnerability to HIV of children. Clean water, sanitation, hygiene are part of its health programmes to improve the overall sanitation and civic amenities. As a part of its sustainable livelihood promotion, farm based/well construction system of rice intensification, vermi composting, lac cultivation, horticulture plantations for tribals and social forestry. The livelihood activities reach out to more than 700 families in the district of Hazari Bagh.

People's Rural Education Movement (PREM)

(www.prem.org.in)

PREM is working in 4 states – Odisha, Chattisgarh, Jharkhand and Andhra Pradesh reaching more than one lakh poor families. As its name suggests – PREM is committed to and involved in promoting education among the unorganized and marginalized poor people, particularly tribals for creating awareness, developing skills and to foster talents. As for education, PREM is implementing Child Centered Community Development in partnership with PLAN for more than two decades in the tribal pockets of Odisha. Microfinance is an important element of organizing the communities under SHG framework and building financial sustainability. Besides vocational education for the wards of the PREM's programme participants, PREM is also involved in disaster preparedness. Another major initiative is in the health front where clean water and sanitation has been integrated with community microfinance eco system. Livelihood initiatives for the tribal people have been another focused area, wherein PREM organises tribal oriented activity and products and help them in marketing their products.

Pragati Sewa Samiti (PSS)

(www.pragathi.org)

PSS is working in 286 villages of Warangal district of Andhra Pradesh with focus on livelihood activity, particularly farm based, women empowerment and education programme. Water shed development for soil and water conservation, thereby promoting sustainable agriculture receiving priority attention under the livelihood promotion and so far 11 water sheds have been developed and conserved. Women empowerment is the primary objective of the microfinance programme whereby beyond micro credit, whereby PSS has been focusing on leadership development, governance and economic social empowerment of women. Networking the SHGs as federation has given the needed social capital for the scale advantage under livelihood promotion and also in empowerment process. Under the education programme, PSS is supporting financially the students studying 10 + 2 by giving scholarship of Rs.6000 per year. So far, 2400 students have been benefited. As part of livelihood promotion, dairy development programme has been initiated recently for ensuring income security for the women members of the SHGs.

South Indian Federation of Fishermen Societies (SIFFS)

(www.siffs.org)

SIFFS adopts multi-disciplinary approach to promote and protect the livelihood of fishermen with traditional artisanal crafts. It is a sort of end-to-end solution/ support for the artisanal fishermen in providing boats, supply of inboard and outboard engines, nets and other fish gears, marketing and organizing financial services. The supply of inputs and fish marketing by SIFFS has come to liberate fishermen from the clutches of middlemen, merchants and money lenders. SIFFS works in 5 states and reaches more than 30,000 fishermen by organizing village cooperatives and district level federations.

SIFFS is involved in building and advancing the skills of the fishermen and their wards for alternative occasions also particularly the computer education with the computer skills. Further, as a measure of alternative employment for fishermen families, SIFFS is also working on promoting and strengthening the fisherwomen livelihoods to diversify their economic activity at individual and community level women self-help groups and their federations has been formed and alternative livelihood activity is encouraged.

Sri Kshetra Dharmasthala Rural Development Project (SKDRDP)

(www.skdrdpindia.org)

SKDRDP is working very intensively in 15 districts of Karnataka reaching 3 million families. SKDRDP as a development organisation is engaged in promoting farm based livelihood as its major intervention and the microfinance under the frame work of self-help groups is integrated into the livelihood programmes and activities. Its multifarious intervention in agriculture encompasses multiple interventions in promoting and supporting farm based livelihoods such as labour share in farming among the smaller and marginal farmers, promoting vegetable cultivation, water shed development programme. Another significant approach of SKDRDP is the SIRI approach (Shri Dharmasthala Siri Gramodhyoga Samasthe). SIRI project has been supporting group enterprises of women in food items, textiles, rexin bags, chemical items including cleaning material, etc. The SIRI initiative has benefited more than 3500 groups. Under the sustainable farming initiative, organic farming, water harvesting and waste land development project are being undertaken along with water and soil conservation. As part of its education programme, SKDRDP runs awareness programme on socially relevant issues through camps, campaigns, etc. and also provides infrastructure support to rural schools for an enabling environment for education in the primary schools.

People's Education Development Organisation (PEDO)

(www.pedomada.org)

PEDO is working intensively in the district of Dungarpur, Rajasthan reaching more than 50000 tribals with its programme intervention targeting the predominant tribal population in the district. Women development programme and education for tribal children are early initiative of PEDO in the district. PEDO's education programme has led to starting of day school for children with community participation, which was later linked to the Government school system. As part of its health initiative, PEDO has undertaken guinea worm eradication programme. PEDO also has worked on a social forestry programme with the objective of restoring severely degraded lands. Both the common lands and –lands were regenerated with the participation of women. Appropriate method of water harvesting and soil conservation measures have been undertaken by PEDO.

Shramik Bharti

(www.shramikbharti.org.in)

Shramik Bharti based at Kanpur is working in the districts of Kanpur and Ramabhai Nagar of Uttar Pradesh reaching out more than 50,000 families. The mission of Shramik Bharti is empowerment of poor and under privileged realize the mission at works in a three thematic areas – livelihood, microfinance, community health, promoting grassroots democracy. Its livelihood intervention covers sodic land reclamation for bringing more areas under cultivation and productivity improvement, promoting sustainable agriculture, eric silk promotion through SHG approach. The microfinance generated in the SHGs support the livelihood activities and its sustainability. The Centre for Community Health of Shramik Bharti is promoting safe motherhood with the focus on institutions delivery, eye care and rehabilitative, HIV aids awareness, clean water and sanitation, school sanitation and promoting wellness of the girl child. Under the sustainability and land reclamation programme, Shramik Bharti is working with 3000 farmers and Eri silk promotion project reached more than 500 silk worm farmers. Women and leather artisans were supported in the slums for remunerative prices for their products namely whips and hunters. The community health programme reached more than 1500 pregnant women through Village Health Guides for safe motherhood and home based life saving skills for mothers for reducing the maternal mortality. Shramik Bharti is involved in school sanitation and clean water promotion programme in 25 schools covering 4500 children.

Urmul Trust

(www.urmul.org)

Urmul Trust is operating in the desert districts of Rajasthan with its headquarter in Bikaner. The primary focus of the work has been livelihoods promoting and preserving the local handicrafts, natural resource management, health and education. Urmul Trust has a larger dairy project as a major livelihood activity for the desert districts reaching 30,000 members/farmers. Urmul Trust supports the traditional handicrafts in the desert districts, particularly the embroidery, which is unique. The embroidery work is well received in the domestic and overseas market.

Prerak

(www.prerak.in)

Prerak is working in 383 villages of Raipur district of Chattisgarh state, primarily focusing on empowerment of women and to meet the basic needs – food, shelter, health and education. To achieve this primary objective, PRERAK has adopted SHG model for organizing the community and now working with 310 self-help groups comprising 3600 members and 600 disabled people. Currently, it is running two livelihood related programmes, community based rehabilitative programme and integrated education for visually handicapped people.

Jagriti Sewa Sansthan (JSS)

JSS is working in 135 villages in Raipur district of Chattisgarh state with primary focus on women empowerment through SHG model and access to financial services, better local governance at the Panchayat level through social audit. Promoting livelihoods for the SHG members, particularly animal husbandry based and fisheries has been another important area of intervention. JSS has so far promoted around 300 SHGs.

Margdharshak Sewa Sansthan (MSS)

(www.msscgindia.org)

MSS is working in 230 villages in Sarguja district of Chattisgarh state with multiple development intervention include – promotion of Gram Sabha for self-governance, formation and strengthening of village level people's organisation, promotion of women self-help groups for the empowerment of women, early childhood and primary education, promotion of child rights & human rights, community health with focus on women and children, working with persons with disability, watershed management programmes, development of agriculture, conservation of natural resource for better livelihood & environment etc. MSS is organizing a campaign for meaningful and effective implementation of Mahatma Gandhi National

Rural Employment Guarantee Act (MNREGA), raising awareness in the Gram Sabha on MGNREG and building capacity of the panchayat members and working towards wider transparency and accountability of NREGA work plans. It also conducted campaign for tribals under forests act for their entitlements. As part of the livelihood initiative, MSS is involved in collection of and proper marketing of non-timber forest produce for the tribal communities and is working towards reviving and reinvigorating some of the NTFP tribal societies. MSS has also been spearheading movement for conserving natural resources in the forest area near Kantarori village. The health initiative of MSS is focusing on early childhood care and development. 50 early childhood development centres are run by MSS reaching more than 1000 children of which 450 are girls.

Initiatives for Development Foundation (IDF)

(www.idfdevelopment.org)

IDF is a social enterprise based in Bangalore. The vision of IDF is empowerment of underprivileged through social mobilization, financial inclusion and sustainable natural resource management programme. IDF has been engaged in multifarious development interventions which include integrated tribal development project in Chitradurga district reaching out to more than 1000 families, livelihood development programmes particularly the natural fibre clusters development in Chitradurga district reaching out more than 300 families. Financial inclusion for livelihood security (Sujeevana) is larger initiative reaching more than 26,000 members of which farmers are of the order of 14,500. IDF is also running community service centres at Gram Panchayats which provides IT enabled services. Women and child development programmes and reviving traditional handicrafts are also the part of the development initiatives of IDF.

Peermade Development Society (PDS)

(www.pdspeermade.com)

PDS is intensely working in the 3 districts – Idukki, Kottayam and Pattinamthitta. The core development programmes of PDS include community empowerment, micro enterprises, and agriculture based livelihoods. Self-help programmes for community empowerment have reached 40,000 families in the 3 districts through 1800 self-help groups. Rural housing and sanitation has been the focus of family development programme. Organic farming and sustainable agriculture programme covering fruits and vegetables, pepper and ginger has achieved significant impact on the lives of small farmers/planters. PDS is also engaged in large scale production of bio manures, mushroom cultivation and bio control agents. Another major initiative is the rural health and wellness which provide health support services – primary health care and organizing health insurance services. Noteworthy of PDS's work is the grass root innovations and advancing indigenous knowledge. PDS is the collaborator of National Innovation Foundation for the State of Kerala and is undertaking documentation and dissemination activities of farmers' innovations with LAB TO LAND programme.

Yuvagram Vikas Mandal

The key areas of work include - Animal Husbandry, Dairying & Fisheries, Aged/Elderly, Agriculture, Art & Culture, Biotechnology, Children, Civic Issues, Differently Abled, Disaster Management, Dalit Upliftment, Drinking Water, Education & Literacy, Environment & Forests, Food Processing, Health & Family Welfare, HIV/AIDS, Housing, Human Rights, Information & Communication Technology, Legal Awareness & Aid, Labour & Employment, Land Resources, Micro Finance (SHGs), Minority Issues, Micro Small & Medium Enterprise. It is covering the districts of Ahmednagar, Beed, Latur, Osmanabad, Parbhani in the State of Maharashtra.

Established in 1985 with the objective of overall development of society Yuvagram started its activities from "Warapgaonâ" village. In due course of the time the organization contributed significantly towards the socio-economic development of the poor and underprivileged. As a token of its contribution the organization "Yuva Gramâ" honored with "National Youth Awardâ" in the year of 2001 for its contribution towards youth development in Beed district of Maharashtra. Today, it is a well-recognized organization in the fields of women & child empowerment, youth development, agriculture, sanitation, watershed development, environment management, awareness, training, resource mobilization and education.

Independent Auditor's Report

To the Members of

International Network of Alternative Financial Institutions - India

Report on the financial statements

We have audited the accompanying financial statements of **International Network of Alternative Financial Institutions - India**, a company licensed under section 25 of the Companies Act, 1956, which comprise the Balance Sheet as at March 31, 2013, and the Statement of Income and Expenditure and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2013;
b) in the case of the Income and Expenditure Account, of the Excess of Expenditure over Income for the year ended on that date; and
c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on other legal and regulatory requirements

1. This report does not include a statement on the matters specified in paragraph 4 of the Companies (Auditor's Report) order, 2003, issued by the Department of Company Affairs, in terms of section 227 (4A) of the Companies Act, 1956, since in our opinion and according to the information and explanations given to us, the said order is not applicable to the company in view of the exemption contained in paragraph 1(2)(iii) of the said order.

2. Further to our comment in paragraph (1) above:

   a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

   b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books

   c) The Balance Sheet, Statement of Income and Expenditure, and Cash Flow Statement dealt with by this Report are in agreement with the books of account.

   d) in our opinion, the Balance Sheet, Statement of Income and Expenditure, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

CHARLES FERNANDO & CO. CHARTERED ACCOUNTANTS
HTM Mithra
AGRINI
7B, TPK Road
Madurai
625 003

e) On the basis of written representations received from the directors as on March 31, 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For **Charles Fernando & Co.**
Chartered Accountants

N. Charles Fernando
Proprietor
Membership No.026619

CHARLES FERNANDO & CO. + CHARTERED ACCOUNTANTS + HT4 Mithra AGRINI 7B, TPK Road Madurai 625 003

Place: Madurai
Date: June 14, 2013

International Network of Alternative Financial Institutions - India

New No.65, First Floor, III Street, Harvey Nagar,

Madurai - 625 016.

BALANCE SHEET AS ON 31.03.2013

	PARTICULARS	Note No.	31.03.2013 (₹)	31.03.2012 (₹)
I.	**EQUITY AND LIABILITIES**			
1.	**Shareholder's funds**			
	Reserves and Surplus	1	3,917,438	4,198,558
2.	**Share application money pending allotment**		-	-
3.	**Non- current liabilities**		-	-
4.	**Current Liabilities**			
	(a) Other current liabilities	2	-	971,675
	(b) Short term provisions	3	30,000	27,000
	TOTAL		**3,947,438**	**5,197,233**
II	**ASSETS**			
1.	**Non-current assets**			
	Fixed assets			
	Tangible assets	4	124,022	126,915
2.	**Current assets**			
	(a) Cash and Cash equivalents	5	3,589,883	4,998,534
	(b) Other current assets	6	233,533	71,784
	TOTAL		**3,947,438**	**5,197,233**

Specific Accounting Policies - Note 10

See accompanying notes to the financial statements

For and on behalf of the Board

"As per my report of even date"

Place : Madurai

Date : June 14, 2013

CHARLES FERNANDO & Co. CHARTERED ACCOUNTANTS HT4 Mithra AGRINI 78, TPK Road Madurai 625 003

For CHARLES FERNANDO & Co.
Chartered Accountants

Proprietor

Membership No. 026619

M.P.Vasimalai	**Jacob Thundyil**	**M.Kalyanasundaram**
Chair Person	**Director**	**Chief Executive**

International Network of Alternative Financial Institutions - India

New No.65, First Floor, III Street, Harvey Nagar,

Madurai - 625 016.

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31.03.2013

	PARTICULARS	Note No.	31.03.2013	31.03.2012
			(₹)	(₹)
I	Specific Project Grant	7	997,403	3,130,497
II	Other Income	8	593,172	633,361
III	**Total Revenue**		**1,590,575**	**3,763,858**
IV	**Expenses:**			
	Other expenses	9	2,820,977	3,874,447
	Depreciation		22,393	34,410
	Total Expenses		**2,843,370**	**3,908,857**
V	Excess of Expenditure over Income for the period (III - IV)		**(1,252,795)**	**(144,999)**

Specific Accounting Policies - Note 10

See accompanying notes to the financial statements

For and on behalf of the Board

"As per my report of even date"

Place : Madurai

Date : June 14, 2013

CHARLES FERNANDO & Co. CHARTERED ACCOUNTANTS HT4 Mithra AGRINI 78, TPK Road Madurai 625 003

For CHARLES FERNANDO & Co.
Chartered Accountants

Proprietor

Membership No. 026619

M.P.Vasimalai	**Jacob Thundyil**	**M.Kalyanasundaram**
Chair Person	**Director**	**Chief Executive**

International Network of Alternative Financial Institutions - India

New No.65, First Floor, III Street, Harvey Nagar, Madurai - 625 016.

Cash Flow Statement for the year ended 31st March 2013

Particulars		(₹)
(A). Cash Flow from Operating Activities		
Net Income	(1,252,795)	
Adjustment for :		
Add: Depreciation	22,393	
Operating Profit / (Loss) Before Working Capital Changes	**(1,230,402)**	
Changes in working capital:		
Adjustments for (increase) / decrease in operating assets:		
Other Current Assets	(161,749)	
Adjustments for increase / (decrease) in operating liabilities:		
Short-term provisions	3,000	
Operating Loss after Working Capital Changes		**(1,389,151)**
(B). Cash Flows from Investing Activities		
Capital expenditure on fixed assets		(19,500)
(C). Cash Flow from Financing Activities		Nil
Net Increase in Cash and Cash Equivalents (A+B+C)		(1,408,651)
Add : Cash and Cash Equivalents at the beginning of the year		4,998,534
Cash and Cash Equivalents at the end of the year		**3,589,883**

Specific Accounting Policies - Note 10

See accompanying notes to the financial statements

For and on behalf of the Board

"As per my report of even date"

Place : Madurai

Date : June 14, 2013

CHARLES FERNANDO & Co. HT4 Mithra AGRINI 73, TPK Road Madurai 625 003 CHARTERED ACCOUNTANTS

For CHARLES FERNANDO & Co.
Chartered Accountants

Proprietor

Membership No. 026619

M.P.Vasimalai
Chair Person

Jacob Thundyil
Director

M.Kalyanasundaram
Chief Executive

International Network of Alternative Financial Institutions - India

New No.65, First Floor, III Street, Harvey Nagar,

Madurai - 625 016.

Notes forming part of the Financial Statements

(₹)

Note : 1 - Reserve & Surplus	**31.03.2013**	**31.03.2012**
General Fund		
Opening Balance	1,546,926	1,251,573
Add : Transfer from Appropriation Account	(528,520)	295,353
Closing Balance (a)	**1,018,406**	**1,546,926**
Appropriation Account	**Dr.**	**Cr.**
Excess of Expenditure Over Income	1,252,795	
Capital Fund Transfer		2,893
Unutilised Specific Project Fund Transfer		971,675
General Fund Transfer		528,520
Corpus Fund Transfer	250,293	
Total	**1,503,088**	**1,503,088**
Corpus Fund		
Foreign Funds Account		
Opening Balance	349,780	323,935
Add : Addition during the year	36,312	25,845
Sub Total	**386,092**	**349,780**
Local Funds Account		
Opening Balance	2,174,937	1,913,437
Add : Addition during the year	213,981	261,500
Sub Total	**2,388,918**	**2,174,937**
Closing Balance (b)	**2,775,010**	**2,524,717**
Capital Fund		
Opening Balance	126,915	161,325
Less : Deduction during the year	2,893	34,410
Closing Balance (c)	**124,022**	**126,915**
Total (a + b + c)	**3,917,438**	**4,198,558**

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International Network of Alternative Financial Institutions - India

New No.65, First Floor, III Street, Harvey Nagar,

Madurai - 625 016.

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Notes forming part of the Financial Statements

Note : 2 Other Current Liabilities					**(₹)**
(i) Unutilised Specific Project Fund					
Name of the Donor	**Balance as on 01.04.12**	**Grant Received During this year**	**Total**	**Amount Utilised During the year**	**Balance as on 31.03.13**
	(a)	(b)	c=(a+b)	(d)	e = (c - d)
Oxfam Novib, Netherlands	682,911	-	682,911	682,911	-
Ford Foundation	288,764	-	288,764	288,764	-
Total	**971,675**	**-**	**971,675**	**971,675**	**-**

Note : 3 Short Term Provisions	**31.03.2013**	**31.03.2012**
Audit Fees	30,000	27,000
Total	**30,000**	**27,000**

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Madurai - 625 016.

Notes forming part of the Financial Statements

Note : 4 Tangible Assets							(₹)
Particulars	**Value as on 01.04.12**	**Addition**		**Gross Value as on 31.03.13**	**Depreciation**		**WDV as on 31.03.13**
		More Than 180 Days	**Less Than 180 Days**		**Rate**	**Amount**	
Furniture & Fixture	61,341	-	19,500	80,841	10%	7,109	73,732
Net Book & Computer	12,105	-	-	12,105	60%	7,263	4,842
Multi purpose printer	31,305	-	-	31,305	15%	4,696	26,608
Digital Camera	7,120	-	-	7,120	15%	1,068	6,052
UPS & Inverter	15,044	-	-	15,044	15%	2,257	12,787
Total	**126,915**	-	**19,500**	**146,415**		**22,393**	**124,022**

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Madurai - 625 016.

Notes forming part of the Financial Statements

Note : 5 - Cash and Cash Equivalents	**31.03.2013**	**31.03.2012**
(i) Balances with Banks		
In FC Savings Bank Account - Canara Bank	149,862	432,156
In Local Savings Bank Account - Indian Bank	164,138	39,727
(ii) Cash in hand		
In FC Savings Bank Account - Canara Bank	750	1,934
In Local Savings Bank Account - Indian Bank	123	-
(iii) Other Bank Balances		
Foreign Funds Account		
Fixed Deposit	500,000	2,000,000
Fixed Deposit - Corpus	386,092	349,780
Local Funds Account		
Fixed Deposit - Corpus	2,388,918	2,174,937
Total	**3,589,883**	**4,998,534**

Note : 6 - Other Current Assets		
Foreign Funds Account		
TDS Receivable	2,663	2,663
Programme Advance	64,506	-
Local Funds Account		
TDS Receivable	14,121	14,121
Rent Advance	55,000	55,000
Programme Advance	97,243	-
Total	**233,533**	**71,784**

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CHARTERED ACCOUNTANTS

International Network of Alternative Financial Institutions - India

New No.65, First Floor, III Street, Harvey Nagar,

Madurai - 625 016.

Notes forming part of the Financial Statement

(₹)

Note : 7 - Specific Project Grant	**31.03.2013**	**31.03.2012**
Foreign Funds Account		
Ford Foundation	-	1,610,497
Local Funds Account		
NABARD	150,000	220,000
Canara Bank Grant	375,000	-
Tamilnadu Women Corporation	149,123	-
SERP	323,280	-
Navajbai Ratan Tata Trust	-	500,000
Shri Kshethra Dharmasthala Rural Dev. Project	-	800,000
Total	**997,403**	**3,130,497**
Note : 8 - Other Income		
Foreign Funds Account		
Interest on FD & Savings Bank Account	176,910	319,808
Local Funds Account		
Membership Fees	196,000	145,500
Interest on FD & Savings Bank Account	220,262	168,053
Total	**593,172**	**633,361**

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Notes forming part of the Financial Statements

Note : 9 - Other Expenses - Programme Expenditure (₹)

Particulars	Oxfam Novib	Ford Foundation	General Project Fund	Total
Foreign Funds Account				
Capacity Building				
Thematic Seminar / Workshop/Remittance/NGOs	85,891	-	-	85,891
Financial Literacy Training Programme	-	13,663	-	13,663
Knowledge Building Workshop on MDGS	63,842	74,532	-	138,374
Product Development on Livelihood System	-	64,559	-	64,559
Programme Management	137,200	35,352	100,068	272,620
Sub Total	**286,933**	**188,106**	**100,068**	**575,107**
Policy, Advocacy & Communication	**53,528**	-	**362,514**	**416,042**
Institutional Support /Administration				
Salaries / Support Staff	192,219	-	665,579	857,798
Travel Expenses	5,100	4,550	-	9,650
Administrative Expenses	139,131	96,108	66,514	301,753
Computer Accessories & Consumables	6,000	-	-	6,000
Sub Total	**342,450**	**100,658**	**732,093**	**1,175,201**
Total	**682,911**	**288,764**	**1,194,675**	**2,166,350**
Local Funds Account				
Workshop, Conference, Policy Advocacy & Communication				654,627
Grand Total				**2,820,977**

CHARLES FERNANDO & Co. CHARTERED ACCOUNTANTS HT4 Mithra AGRINI 78, TPK Road Madurai 625 003

International Network of Alternative Financial Institutions – India

New No.65, First Floor, III Street, Harvey Nagar, Madurai – 625016.

Note: 10 Significant Accounting Policies and Notes on Accounts

1. International Network of Alternative Financial Institutions India (INAFI) is a company, limited by guarantee, incorporated on 20th March 2003 under the Companies Act, 1956 and licensed under section 25 of the Act.

2. The Company basically undertakes the following activities:
    - It promotes and supports the micro finance programmes in India.
    - It also provides capacity building programmes in connection with Micro finance to member organization and also to other stakeholders in the sector.
    - It conducts programmes in policy advocacy work and also research studies in micro finance field.

3. The financial statements are prepared under the historical cost convention on accrual basis and in accordance with revised schedule VI of the Companies Act, 1956

4. Grants received from Donor Agencies were for specific purpose and hence it is shown separately under the head **"Unutilized Specific Project Fund"** to reflect the balance left in hand and to be applied in the following year for the purpose for which it was given. However the grants were shown as income for Income and Expenditure purpose and the excess expenditure has been appropriated towards General Fund, Corpus Fund, Capital Fund and Unutilized Specific Project Fund.

5. Fixed Assets acquired from the project funds were written off as expenditure to arrive the unutilized specific project fund, however depreciation on the fixed assets were charged in the Income and Expenditure Account and the assets were shown in the Balance Sheet after charging depreciation and the corresponding value is shown as contra in Capital Fund Account.

6. Depreciation on the Fixed Assets were charged at the rate prescribed in the Income tax Act,1961.

7. The accounts for the accounting year relate to the period from April 1, 2012 to March 31, 2013 and the corresponding previous year figures have been regrouped/ reclassified wherever it is necessary.

8. Consolidated accounts mean and represent the consolidation of the accounts relating to foreign and local contributions.

CHARLES FERNANDO & CO. + CHARTERED ACCOUNTANTS + HT4 Mithra AGRINI 7B, TPK Road Madurai 625 003

For **Charles Fernando & Co.**
Chartered Accountants

N. Charles Fernando
Proprietor
Membership No.026619

M.P.Vasimalai Chair Person	Jacob Thundyil Director	M.Kalyanasundaram Chief Executive

Place: Madurai
Date: June 14, 2013

INTERNATIONAL NETWORK OF ALTERNATIVE FINANCIAL INSTITUTIONS-INDIA
(Incorporated as Section 25 not-for-profit Company of Companies Act, 1956)
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