



A Systemic View of SHG Bank Linkage Four Sustainable Models

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Objective of the study

What is the potential of the SHG system to be a permanent source of financial services to the poor in India?



Key system functions

Standardized Products and Norms - MIS, rules, and risk mitigation strategies.

Liquidity – Even out seasonal cash flow variations and handle higher-level treasury functions.

Training – Staff training in basic operations, clients training to understand products on offer and procedures.

Support – Customer acquisition and retention, group formation and nurturing, and management of member exits and entrances.

Administration – Book-keeping, processing of transactions and client servicing

Direct Supervision / Intervention in Operations – Basic control functions, constant supervision, intervention in case of trouble.



Framework for analysis

- How are key system functions covered?
- What is cost of these functions to all parties (bank, NGO, agent, etc.)?
- Can income generated from SHG members cover costs?
- Earlier cost studies didn't look at system:
 - Srinivasan (1999), Harper (2002), Seibel and Dave (2002), Tankha (2002), Reddy and Prakash (2003), Sinha et al (2003), Nair (2005)



Study approach

- **Examine four leading SHG models of different types**
- **Build financial statements for these systems**
- **Understand sustainability and efficiency**

Analysis of leading SHG systems

<i>Indicator</i>	Microcredit Foundation of India (MFI)	Sarvodaya Nano Finance Ltd. (SNFL)	Oriental Bank of Commerce (OBC)	Dhan Foundation (DHAN)	TOTAL
<i>Legal Status</i>	Non-profit co. (Sec 25)	NBFC	Scheduled Commercial Bank Branch	Trust	
<i>Region</i>	South (Tamil Nadu)	South (Tamil Nadu)	North (Uttaranchal)	South (Tamil Nadu)	
<i>Total SHG Clients (as of date)*</i>	360,000 (30/5/05)	50,000 (31/3/05)	12,000 (31/3/03)	330,000 (31/3/03)	752,000
<i>Support arrangement used</i>	Apex Organization	Apex Organization, SHG Federations	Individual agents	SHG Federations	



Financial statements for the system

	MFI	SNFL	OBC	DHAN
Apex/Bank Op Exp	34,000	12,440	691	0
Federation Op Exp	0	29,988	0	867
Agent Op Exp	0	0	287	0
Fed'n Promo Exp*	0	0	0	663
Financial Expense	0	12,907	2,363	1,258
Loan Loss Provision	0	3,771	574	252
Total Expense	34,300	59,106	3,916	3,040
Total Op Income	30,300	50,328	4,087	2,125
Setup Subsidy*	0	0	0	663
Running Subsidy	0	5,141	0	0
Profit (Loss) less Subsidy	(3,700)	(13,919)	172	(1,579)
Avg Portfolio	505,000	188,567	28,709	25,197
Avg Total Assets	561,111	236,052	29,233	29,644



Results of the analysis

	MFI	SNFL	OBC	DHAN	Mean
Unit of Analysis	Zonal Office	Entire System	Branch	One Federation	--
Operational Self-Sufficiency	89.1%	85.1%	104.4%	69.9%	87.1%
Oper Exp / Avg Total Assets	6.1%	18.0%	3.3%	5.2%	8.1%
Total Cost per Client	Rs. 558	Rs. 1,250	Rs. 356	Rs. 485	Rs. 662
Avg Loan Size (Rs. per client)	8,292	3,988	2,610	4,023	4,728



Leading SHG models are world-class

	4 Leading SHG Programs	58 SHG MFIs in India	9 Grameen-style MFIs in India	38 Leading MFIs in India	231 MFIs (Global)
PAR	~0.4% (>90 days)	27.7% (>60 days)	4.2% (>60 days)	4.4% (>30 days)	5.2% (>30 days)
OSS	87.1%	48%	85%	98.5%	122.8%
Avg Loan O/S (% of GNI pc)	\$99 (16.0%)	\$37* (6.0%)	\$54 (8.7%)	\$134 (21.6%)	\$689 (74.7%)
Cost per Borrower	\$13.9	\$23.6	\$18.1	\$14	\$158
Oper Efficiency	8.1%	63.8%	33.4%	12.3%	20.0%
Yield	11.8%	12.6%	28.8%	20.7%	38.7%



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Understanding sustainability

- 1. Decide what your “system” is – organization, branch, area, etc.**
- 2. Figure out who does system functions, or what functions are not done**
- 3. Identify total costs and revenues**
- 4. Understand total assets (and funds managed) by system**
- 5. Create I/S, B/S - see sustainability/efficiency**



Summary points

- **Consistent results are key to any banking system**
- **Key functions MUST be performed for success**
- **Leading SHG models show that sustainability is possible at reasonable price**
- **Policymakers: subsidize group capital account, or invest in permanence of the SHG system?**