

***BULLOCK-CART WORKERS' DEVELOPMENT ASSOCIATION
&
BWDA FINANCE LIMITED***

LEVERAGING PARTNERSHIPS FOR GROWTH

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BWDA Finance Limited: Managing Partnerships for Growth

Date: 5 October 2008

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1. Context

1.1 Background to the Study:

MicroSave is working with CGAP to develop a 'Managing Rapid Growth of MFIs' toolkit to assist MFIs to manage rapid scale-up and growth. The toolkit will enable Senior Executives and Board Members to review and think about the key issues / challenges that they are likely to face as their Microfinance Institutions (MFIs) grow. It will therefore be a 'what you will need to worry about/manage' toolkit with cross references to other toolkits/resources drawn from across the industry, particularly from CGAP and *MicroSave*, that can be used to understand the 'how to' manage rapid growth of MFIs.

As part of the preparations to do this, *MicroSave* has commissioned a series of studies on MFIs that have grown rapidly, to examine the issues that they faced and how they managed them, with a view to identify common issues, themes and strategies, as well as, to develop case studies for the toolkit. Bullock-cart Workers Development Association (BWDA) promoted *BWDA Finance Limited* (BFL) is one of the MFIs selected for this study.

1.2 Introduction to BWDA

With a view to improve the socio-economic conditions of bullock-cart workers, Mr. Joslin Thambi set up the Bullock-cart Workers Development Association (BWDA) in 1985. BWDA was registered as an NGO at Villupuram² in 1986 under the Tamil Nadu Societies Registration Act, 1975. BWDA supported social mobilisation and other development programmes and in 1992 started forming Self Help Groups (SHGs)³.

During 1992-96, BWDA was an implementation partner of the Tamil Nadu Women Development Corporation's Women Development Programmes in two blocks of the Villupuram district. At this stage, BWDA expanded its programme coverage to other⁴ poorer families and linked the SHGs to local banks to meet the credit needs of the SHG members. By 1996, IFAD completed its funding for the Women Development Programme. The Tamil Nadu Government noted the substantial impact⁵ of the IFAD funded programme and launched a state wide programme⁶ *Mahalir Thittam* (Women's Programme). BWDA as an NGO partner of the state programmes was allotted five (5) Districts under *Mahalir Thittam*. BWDA continued forming and supporting SHGs and worked closely with the banks. However, despite advocacy efforts by Women Development Corporation and the NGOs, the banks were meeting only a small proportion of SHGs demand for loans.

In 1998, responding to the SHG demand for loan funds, BWDA started lending its own funds to SHGs. However initially the BWDA team was hesitant, as they lacked skills in delivering financial services and the board members debated as to whether BWDA should borrow from financial institutions. In 1999, *Rashtriya Mahila Kosh*⁷ approved BWDA's application for a Rs. 1.5 million loan. The key feature of the BWDA

¹BFL-BWDA provided office space and ready access to its staff and documents for this study. Their enthusiastic participation made my task much easier and I thank them for their support. The author thanks Graham A.N. Wright and Manoj K. Sharma at *MicroSave* for inviting him to contribute this paper as a part of series on 'Managing Rapid Growth'. Sukhwinder Arora visited BFL-BWDA during 13-26 June. The views expressed here are those of the author and are not necessarily shared by BFL, BWDA or by *MicroSave*. The author can be contacted at arora_psd@yahoo.co.uk.

² One of the 30 districts in Tamil Nadu

³ Self Help Groups comprise of 12-20 women or men members and start with collecting savings from own members. By giving small loans from these funds, the SHG meet short term needs of members and over time mobilise funds from BFL, Banks and others.

⁴ Beyond families of bullock cart workers

⁵ The Government of Tamil Nadu noted that no other programme had reached and positively impacted so many poor people in the state. An evaluation of the IFAD project revealed that 64% of beneficiary families moved above the poverty line. While the per capita income of the families earning <Rs 3,500 tripled, the income in other categories doubled (Gariyali and Vittivel, 2006).

⁶ Currently the programme is being implemented through 460 NGOs and over 350,000 SHGs.

⁷ National Women Fund set up by the Government of India.

programme was its inclusive character. SHGs mobilised savings from its members and used these internal funds together with external loans from the banks to meet the members' loan demand. Only when the loan demand at the SHG exceeded available funds from members and banks, the SHGs approached BWDA for meeting the funding gap. Readers may note that under this strategy SHGs manage significant internal resources, have continued access to the banks and thereby exercise local decision making. Unlike some MFIs, BWDA is not trying to maximise its control or earning potential, as it manages a small portion of the funds deployed.

BWDA also continued with its other development activities such as social mobilisation, education, health, sanitation, and vocational training. Over time BWDA concluded that for better management of microfinance and other development programmes, it was important to separate these. In 2003, BWDA promoters and staff mobilised Rs. 3.3 million to purchase an existing Non-Banking Finance Company and expanded the microfinance programme through BWDA Finance Limited (BFL)

1.3 BWDA-BFL Growth 2002-08

B

BWDA and BFL work very closely together. BFL started only in 2003 and staff and portfolio had been shifted from BWDA to BFL only over a period of time. The table below reviews the combined performance of the two organisations. March 2002 data has been provided to enable comparison over the two periods of three years each (2002-05 and 2005-08).

Table 1.1 below shows that BFL expanded from 4 to 21 branches during the period March 2005 to March 2008, whereas, BWDA expanded from 9 to 14 branches during the same period. By March 2008, the 14 BWDA branches were very much part of BFL branches but had some outstanding for BWDA. BWDA and BFL collectively added 12 additional branches during 2005-08, which represents 133% growth in branches and Average Annual Growth Rate (AAGR) of 33%. Similarly most of the staff working on microfinance has been shifted from BWDA to BFL and collectively for BFL and BWDA staff strength has been expanded at an annual average growth rate of 50%. Active clients and loan portfolio have increased at even higher annual growth rates, signifying productivity increases. For example, portfolio per staff has increased from Rs. 0.86 million in March 2005 to Rs. 1.93 million in March 2008.

Table 1.1: BWDA-BFL Outreach Indicators 2002-08

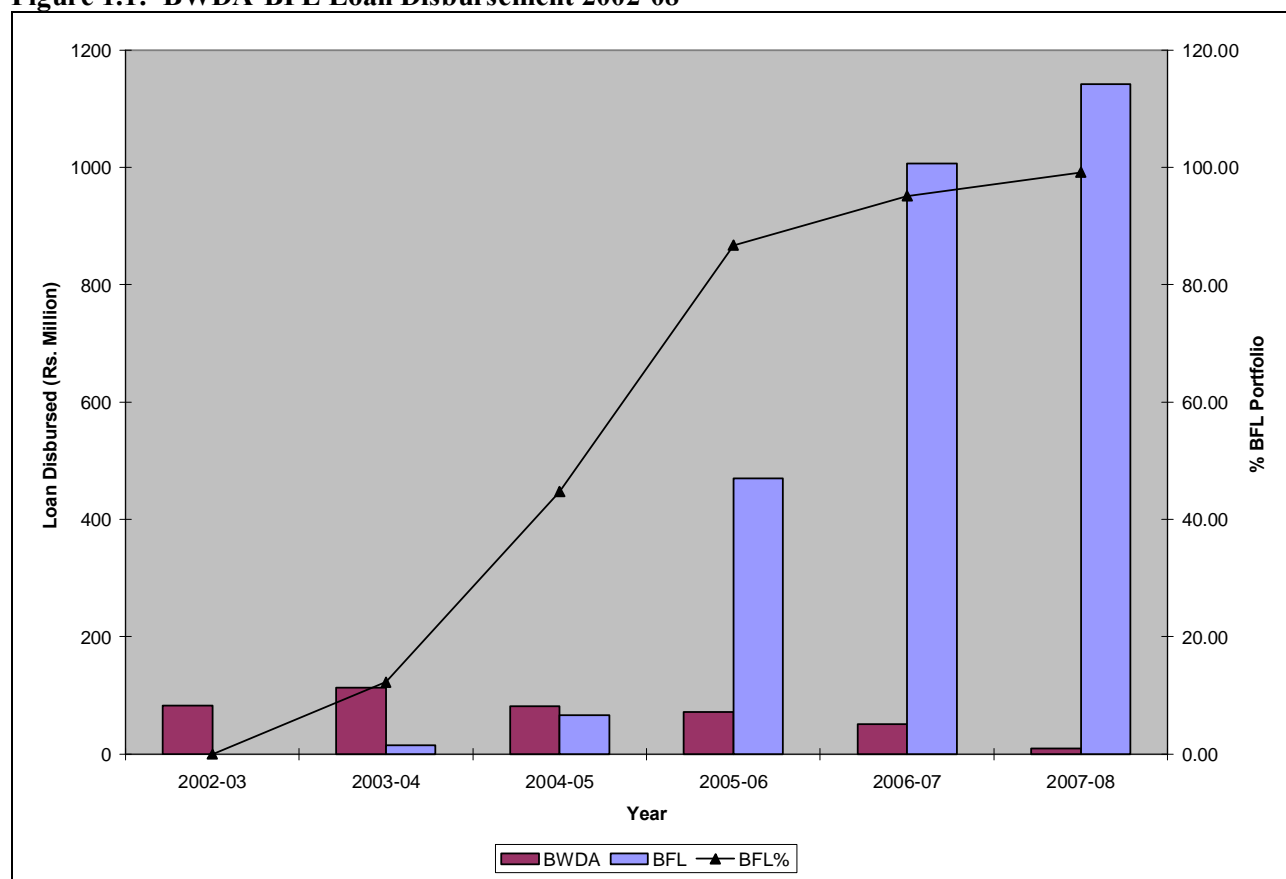
	Indicator		March 2005	March 2008*	2005-08 Growth Analysis		
					Change	% Growth	AAGR
1	Branches (Number)	BWDA	9	14			
		BFL	4	21			
		BWDA+BFL	9	21	12	133	33
2	Staff (Number)	BWDA	123	54			
		BFL	5	393			
		BWDA+BFL	128	447	319	249	43
3	Active Clients (Number)	BWDA	7,233	4,692			
		BFL	10,670	210,721			
		BWDA+BFL	17,903	215,413	197,510	1,103	129
4	Loan portfolio outstanding (Rs. Million)	BWDA	51	11			
		BFL	63	851			
		BWDA+BFL	114	862	748	655	96

Data source: BWDA and BFL (The figures for March 2008 are provisional)

By March 2008, 15,723 Self Help Groups were functional (15% men groups) with 292,729 members. 74% of these members had taken loans from BFL-BWDA. The figure below presents the annual loan disbursements by BWDA and BFL and clearly reflects the increasing role of BFL in the delivery of microfinance portfolio.

The right hand scale shows that by March 2008, BFL accounted for 99% of the combined BWDA-BFL microfinance loan outstanding.

Figure 1.1: BWDA-BFL Loan Disbursement 2002-08



During 2007-08, BFL earned Rs 155.77 million income from operations (39% growth over previous year) and Rs. 22.23 million profits after tax (50% growth over previous year). Portfolio yield has considerably reduced from 35.3% in March 2005 to 19.6% in March 2008 due to reduction in interest rates (see table 1.2 below and section 6.3 on interest rates). However by improving scale of operations and productivity and reducing operating costs, profitability has gone up, despite increase in portfolio at risk (from 0.75% to 2.15%).

Table 1.2: BFL Financial Performance Summary 2005-08

	Indicator		March 2005	March 2008	Change
1	Portfolio Yield	BFL	35.3%	19.57%	-15.73%
2	Operating Expense Ratio	BFL	31.04%	5.16%	-30.05%
3	Portfolio at Risk > 90 days	BFL	0.75%	2.15%	+1.4%
4	Operational Self Sufficiency	BFL	113%	128.25%	+15.25%
5	Financial Self Sufficiency	BFL	80%	107.51%	+27.51%
6	Return on Assets	BFL	2.5%	2.79%	+0.29%

Data source: BFL (The figures for March 2008 are provisional)

In August 2007, M-CRIL carried out its fifth rating update for BWDA and BFL and accorded + rating, noting its continued good performance on all the parameters, including robust expansion strategy and strong board.

2 Organisation Form and Governance⁸

2.1 Legal Form

BWDA was set up in 1986 under the Tamil Nadu Societies Registration Act, 1975. Charitable status and the prospects of limited interference from the Society Registrar, has made the society format a popular route in the past for most development activity. As long as the NGO is handling grants, society status provides certain benefits, including tax exemption. However societies providing financial services face a number of challenges, as furnished hereunder:

- Societies do not have a clear legal mandate to undertake microfinance.
- Regulation for financial services provision under society act is weak and Reserve Bank of India (the central bank) has no role in this regard.
- Societies do not have a capital structure (only corpus grants can be capitalised).
- Board members have individual unlimited liability.
- It is much more difficult for non-profits to charge interest rates that cover full costs of efficient operations and fund mobilisation.
- Societies can not build up profits to become financially independent.

The above factors have profound implications for organisational character and growth:

- Legal status as a society/non-profit makes the lenders and investors very cautious of substantial dealings with a non-regulated financial institution.
- Commercial equity investors neither have an instrument nor an incentive to invest in a society.
- Giving and recovering loans entails risks and the absence of equity capital limits the organisational ability to adequately provide for, and cope with these risks.
- Lack of prospects for financial independence limits its ability to attract and compensate professional staff or provide career opportunities.
- Substantial dependence on grants threatens efficiency and long term sustainability.

However the real driver for BWDA to quickly adopt the non-profit route for financial services delivery lay elsewhere. Commercial Banks affected by the BWDA operations, did not really like its expanding microfinance programme and complained to the respective District Collectors. In Kancheepuram District, the District Collector issued a press statement noting BWDA's high interest rates and filed a case under the money lending act against BWDA's Managing Director and one more staff. In Cuddalore, the District Level Bankers Committee passed a resolution in the presence of the District Collector complaining on BWDA's high interest rates. Tamil Nadu Women Development Corporation, an agency promoted by Tamil Nadu Government, had to write a formal letter to all the District Collectors to explain the important contribution NGOs were making to the microfinance sector. While NBFs are legally permitted to fix their own interest rates⁹, it is less clear as to whether NGOs pursuing charitable activities can charge cost covering interest rates. Readers may note that this criticism of BWDA on interest rates was despite two important factors:

- a) BWDA/ BFL interest rates are in the lower¹⁰ range amongst the microfinance sector (see section 6.4); and
- b) while local bank managers were complaining, some of the national level banks (both public and private) were providing bulk loans to BWDA.

2.2 Transformation to BWDA Finance Limited

BWDA senior team had noticed the discomfort of financial institutions giving large loans to BWDA (the NGO) and heard the arguments from experts and fellow practitioners during a SIDBI organised national workshop on transformation¹¹ in 2002. So the growing challenge from the local banks and the district

⁸ From this section, the paper follows the framework provided by *MicroSave*

⁹ But that was not noticed by District Administration in Andhra Pradesh (the neighbouring state) even in 2006 which asked most MFIs to temporarily suspend their microfinance operation in one district (see Arora and Babu, 2008).

¹⁰ BWDA initially fixed 12% declining interest rates (lending rate BWDA to SHGs) in 1999 to meet conditionality of lending by Rashtriya Mahila Kosh. When borrowing from SIDBI, this lending rate was no longer viable. During 2001-02 BWDA charged 12% flat, partly to compensate the SHGs animators. Current interest rates are 16% declining.

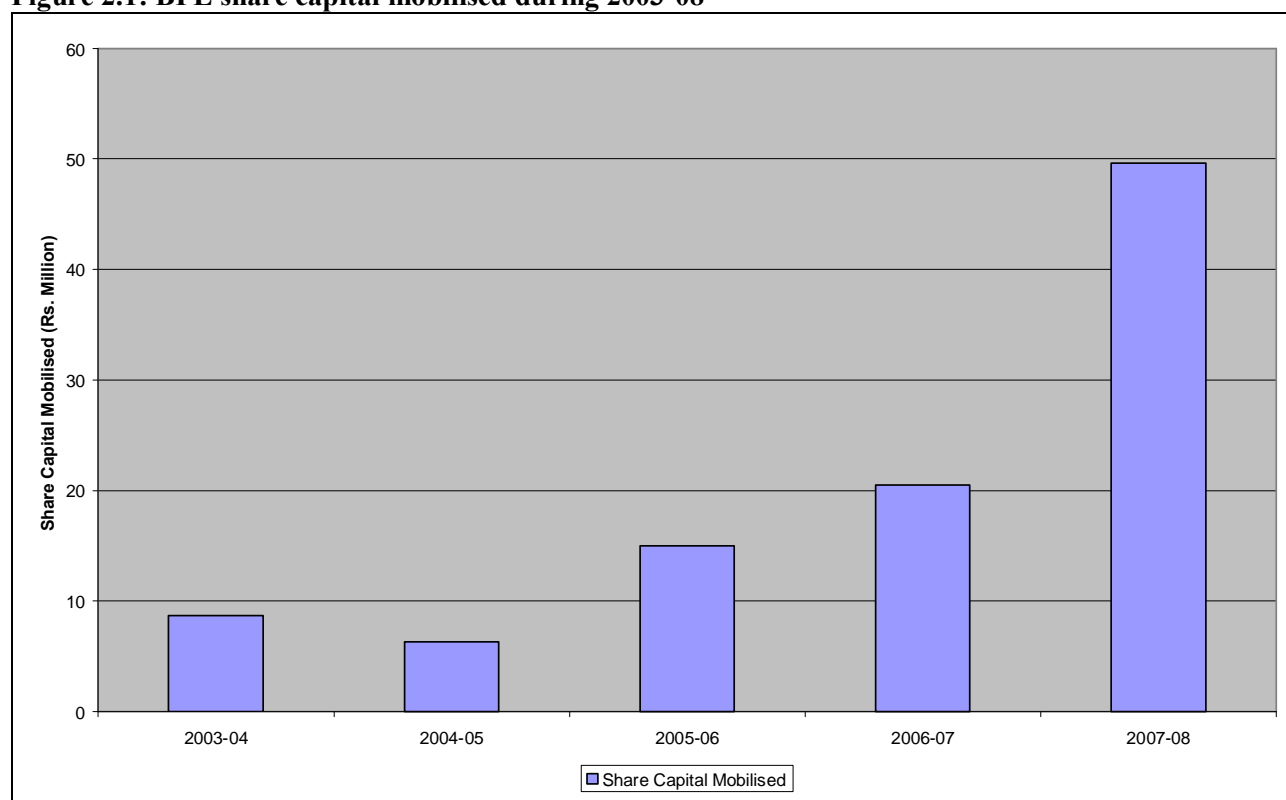
¹¹ From non-profit to for profit

administration galvanised the BWDA senior management into action during 2002-03. In consultation with its external auditor, some RBI officials and other informal advisers, a decision was taken to deliver financial services through a Non-Banking Finance Company. However for setting up a new NBFC, BWDA needed to mobilise a capital investment of at least Rs 20 million.

By March 2003, BWDA total capital fund¹² was only Rs.1.49 million. BWDA capital fund is mentioned here not because this could be deployed to buy the NBFC, but simply to note the limited resources available with BWDA at that time and to highlight the extent of the challenge in mobilising fresh capital. An advisor suggested that BWDA should look for older NBFCs, as NBFCs registered prior to 1997 could be set up with a much smaller capital of Rs.2.5 million. A shortlist of seven old, inactive NBFCs (without significant liabilities) was prepared and investigated for possible change over. Nagercoil Prompt Finance and Investment Private Limited had closed its operations in 2002. It had no liabilities and a paid up share capital of Rs.3.3 million. By August 2003, this NBFC was taken over and renamed as BWDA Finance Limited. ROC later approved a share capital of Rs. 20 million for BFL. The current paid up equity of Rs.100 million, is five times the minimum stipulated by the central bank and 33 times the initial change over price.

In the first one and half years, Rs.15 million share capital was mobilised. Better information, increasing profitability and regular dividends has increased demand for shares and yielded Rs.85 million subscriptions in the next three years. Share subscriptions mobilised during each year are provided in the figure below.

Figure 2.1: BFL share capital mobilised during 2003-08



To develop BFL as a community owned institution, SHG members were invited to subscribe to the BFL shares. Every borrower taking loan was persuaded to invest 5% of the loan amount in BFL shares. For a short period, the BFL even offered 2% incentive to its field staff to market the shares to SHG members. With active field publicity, Rs.20 million was mobilised within a month. BFL has declared dividend from the first year and 15% dividend was paid for the financial year 2006-07 and 2007-08. Not surprisingly, the BFL share subscription has increased over time. However, only few SHG members and some staff understand the

¹² By March 2003, Loan portfolio was Rs. 24 million

difference between a deposit and share investment and most of the over 100,000 SHG members, who collectively own 80% of BFL (see Table 2.1 below), do not really understand this distinction. In case of sustained weak performance, the members can also lose their capital investment in shares. The probability of this happening is low, but the cost for BFL could be very high, as apart from losses for poor households, this will certainly attract intense and adverse media and political attention. Some of risk mitigation strategies deployed by BFL are:

- a) most members have invested only Rs.1,000 or less (average investment Rs.690);
- b) BFL loan outstanding with each individual¹³ member exceeds their share investment at most times; and
- c) any SHG which is dissolved is refunded the share amount.

Table 2.1: BFL share holding pattern (as on 31st March 2008)

Investors	Number of Shareholders	Share Capital	
		Amount (Rs Million)	%
Promoters and Directors	10	1.97	1.97%
Staff of BWDA and BFL	400	18.41	18.63%
SHG Members and other individuals	115,558	79.70	79.41%
Total	115,968	100.08	100.0%

Even at a practical level, issuing shares to over 100,000 members spread over 9 districts and distributing annual dividend¹⁴ is a substantial logistical challenge. To this must be added the members' challenge of encashing this investment, either before or after¹⁵ an Initial Public Offering and stock exchange listing. Since January 2008, fresh issue of shares to SHG members has been discontinued. BFL is now in advanced discussions to mobilise additional Rs.200 million capital from institutional investors.

Despite transformation, the problem of deposit mobilisation remains. BFL is unable to collect deposits and has to mainly¹⁶ depend upon financial institutions, even though both the members and SHGs have surplus cash on various occasions and would welcome a safe place to save. It may be noted that by March 2008, as against Rs.862 million loan outstanding (combined for BFL and BWDA), SHGs had internal savings of Rs.1,474 million and an internal rotation of Rs.2,924 million. SHG members save and rotate their savings amongst themselves but this creates the following challenges:

- Some SHGs lack the skills, the internal leadership, and/or the group pressure to keep up to date accounts. This increases risks for members to lose money through error or fraud and adds to BWDA/BFL responsibility in SHG training and monitoring.
- All members within a group are obliged to save an equal amount every month. While the group provides the discipline for regular savings, this limits opportunities for saving lumpy or irregular cash flows.
- Active Government programmes for SHGs sometimes cause confusion amongst group members regarding group formation objectives.¹⁷

¹³ For all members collectively, loans they owe to BFL will be always much higher than the shares purchased

¹⁴ Dividends have to be distributed through BFL branches in cash as many shareholders don't have a bank account.

¹⁵ For example, share trading guidelines mandate a de-mat account, which is expensive to set up and operate for small transactions or non-urban residents.

¹⁶ Retained earnings and fresh share issue are other sources of funds to expand loan portfolio.

¹⁷ SHGs functioning for 5-6 months can apply for revolving loan fund of Rs. 25,000 through local banks, out of which Rs. 15,000 is bank loan and Rs. 10,000 is Government subsidy (adjusted towards loan on full repayment of bank loan). NGO sponsorship letter is necessary for the subsidy claim. However sanction and disbursement delays are common. 42 applications approved in March 08, were not yet disbursed by mid June 08.

2.3 Governance:

When the BFL Board was constituted, five of the BWDA Board Members, including the Promoter Mr. Thambi, joined the BFL Board. BFL has ten member Board from various key fields such as rural development, banking, academics, capital market, law and community organisation. Three of the senior BFL staff members join the Board for two years on rotational basis. The Board takes an active interest in BFL operations and meets regularly to review progress and steer the organisation.

The decision making process is decentralised, so that the Board is able to focus on key strategic issues and consider the recommendations of the operational managers, before finalising decisions. The various BFL staff members discuss and recommend the proposed programmes for the financial services during the review meetings and special planning meetings. These discussions are then presented to the Board by the Managing Director. The Board also takes policy decisions on operational and human resource development aspects based on the recommendations of the staff and overall resource availability. A four member Executive Committee has been constituted since 2005 to decide on urgent matters, including approval of loans. The committee can also deliberate and recommend to the Board on policy matters. The executive committee can meet as often as required. In addition, the Board has constituted other committees such as: a) credit committee; b) staff grievances committee; c) customer grievances committee; and d) loan audit committee.

Although with increasing operations, more powers are being transferred to the management, some operational decisions are made by the Board. For example, all SHG loans up to Rs. 500,000 and Individual Loans up to Rs. 100,000 are sanctioned by the Management. However, SHG loans above Rs. 500,000 and all Individual Loans above Rs. 100,000 but below Rs. 500,000 are recommended by the management but approved by the Executive Committee/Board.

The Board meets at least once in two months. Each of the Board members has made modest investments ranging from Rs.30,000 to Rs.600,000 to purchase BFL shares. The Board members get a sitting fee of Rs.1,000 plus expenses for each meeting.

2.4 BFL Relationship with BWDA

BWDA and BFL are separate legal entities. However, BWDA Finance Limited is very much seen as a part of the BWDA family. Five of the Board Members of BWDA are on BFL Board, both organisations have Mr. Joslin Thambi as the Chief Executive and the staff are co-located at the head office and branches. BFL has derived substantial benefits from BWDA's goodwill, infrastructure and trained microfinance staff. But BWDA does not own any of the BFL shares, as a non-profit society in India is prohibited from investing in a for-profit company.

Initially BWDA staff organised the SHGs and BFL provided the loan financing. BFL reimbursed BWDA for the promotion expenses¹⁸. For example, by March 2005, BFL managed a portfolio of Rs.66 million but directly employed only 5 staff. During 2005-06, 193 of the BWDA staff involved in microfinance joined BFL. The broad vision is that most financial services will be managed by BFL, so that BWDA focuses on development activities. BFL currently manages 99% of the microfinance portfolio. However BWDA recently took a Rs.5 million loan from *Rashtriya Mahila Kosh*. Mr. Thambi sees this as a risk mitigation strategy, as the national road map for microfinance regulation is not yet clear. A microfinance bill is pending with the parliament and may not be passed before national elections due in 2009. He does not want to completely close the NGO route for financial services delivery, till there is clear signal for the NGO microfinance sector. After all *Rashtriya Mahila Kosh* is a government promoted fund but is funding NGOs delivering microfinance. Similarly newly introduced regulations permit NGOs, but not for-profit organisations such as NBFCs, to become a business correspondent¹⁹. So neither BFL can directly mobilise

¹⁸ BFL paid BWDA Rs. 18 million facilitation and monitoring charges during 2006-07

¹⁹ Business Correspondents (BC) are authorised to collect savings deposits on behalf of licensed banks. Savers currently are paid 3.5% interest per annum and BC get 1 to 1.25% of saving collection fees. In addition, BC can give small loans to savers, in consultation with the commercial bank and are paid a small fee for each activity (loan origination, disbursement and repayment).

savings, nor become a business correspondent for a scheduled commercial bank. But BWDA, the NGO can mobilise savings as a business correspondent.

BWDA and BFL have to also consider operational clarity, so that operating costs and flow of funds are clearly tracked and attributed. By supplying 13 financing institutions with monthly statements linked to their respective financing, BWDA and BFL teams feel confident that the operational mechanisms are in place to attribute each loan and SHG to specific source of funds.

2.5 Organisational Architecture

Since BWDA staff and loan portfolio have been shifted to BFL only over a period of time, the organisation structure is evolving to reflect this transition, as well as to manage the ensuing business growth. During 2005-08, active customers served by both BFL and BWDA have expanded 12 times from 17,903 to 215,413. The loan portfolio has grown from Rs.114.13 million to Rs.861.84 million during the same period. As the microfinance programme was quite small in March 2005, 133 staff handled the 18,000 borrowers. The recent growth, formal NBFC status and future expansion plans are now triggering formalisation of processes and systems in collaboration with *MicroSave*.

BFL has a senior management team which structures, guides and oversees its operation. The team is led by the Managing Director, Mr. Thambi, who is also the founder of both BWDA and BFL and is a member of the Board for both organisations. A position of General Manager was created two years ago to strengthen credit operations and especially develop the individual lending product in the first 2 years. A Deputy Director oversees the BFL operations in southern Tamil Nadu, which is over 500 km away from the headquarters. Seven Senior Managers oversee field operations, accounts, internal audit, planning and MIS. Each of the Senior Manager responsible for field operations, oversees 3-4 Branches (about 3,000-4,000 SHGs). The senior management team meets at least once a month to discuss key emerging issues, review progress and make arrangements for the next few months.

To further strengthen the senior management, a post of Chief General Manager is being created to oversee many of the functions. Plans have been finalised to recruit General Managers to oversee finance, internal audit, human resources, administration and regulatory compliance. With effect from July 2008 seven Senior Managers have been promoted to the level of Assistant General Manager. Similarly, 5 Branch Managers have been elevated and posted as Senior Managers. Three Regional Offices have been set up at Chennai, Villupuram and Nagercoil.

3.0 Growth Strategy

3.1 Strategic Business Planning

When BWDA became a SIDBI partner in 2002, SIDBI in consultation with BWDA appointed a mentor (Catalyst Management Services), so that BWDA could access regular technical assistance. SIDBI as a major financing institution also asked BWDA to prepare a strategic business plan. BWDA has largely met its key Business Plan targets for the period 2003-08 (see below).

Table 3.1: Key Strategic Business Plans Targets and Achievements 2003-08

	Particulars	2003-04		2004-05		2005-06		2006-07		2007-08	
		Target	Ach.	Target	Ach.	Target	Ach.	Target	Ach.	Target	Ach.
1	SHGs	5,537	4,427	7,407	5,300	8,263	7,580	8,263	12,708	19,908	15,723
2	Operating Cost per Unit of Money	0.11	0.00	0.06	0.05	0.05	0.10	0.04	0.13	0.03	0.15
3	Average Portfolio per Loan officer (million)	0.36	0.24	0.62	1.19	0.92	5.16	1.21	4.37	1.51	3.12
4	Financial Self Sufficiency (%)	85	Na	111	29	122	80	131	113	117	109.51

During 2007, *MicroSave* facilitated development of a strategic business plan for the period 2007-15. BFL staff from all functional levels of the organisation (Managing Director, Deputy Director, General Manager, Senior Managers - Credit Operations, Internal Inspection, MIS and Finance, Branch Managers, Internal Audit team members etc.) took active part in finalising this plan. BFL's Vision is to work towards: *“A poverty free, sustainable and equitable society making strides towards empowerment and prosperity”*.

The strategic planning exercise agreed on a more ambitious mission statement *“To empower 15 lakh (1.5 million) vulnerable/poor households and others, directly/indirectly by 2015, through continuous access to financial and capacity building services”*. This was also seen as a powerful *“15 by 15”* slogan to galvanise staff towards the ambitious targets.

Values: Following core values were identified by BFL team members during the strategic planning process:

<i>Organisational Values</i>	<i>Individual Values</i>
1. Good Governance	1. Good attitude towards customer.
2. Customer Satisfaction	2. Professionalism with Human Touch
3. Responsive	3. Dedication & Commitment
4. Transparency	4. Team Work
5. Fairness	5. Integrity
6. Trust	6. Loyalty
7. Innovation	7. Fairness in all dealings and relations

3.2 *Change Management*

In the process of transforming from an NGO to a *“for-profit”* non banking finance company, BFL has had to manage a number of key challenges:

- *‘Non Profit’ to ‘For Profit’ organisation:* For 17 years, the BWDA Board and the staff had seen themselves as part of a development organisation and some of them were uncomfortable, if not hostile, to the emerging changes in the basic character of the new organisation. Some of the outsiders also commented that BWDA has now become a *“money lending organisation”*²⁰. The fact that many microfinance programmes had not yet transformed into *“for profit”* organisation structures by year 2003, added to the senior management difficulties.
- *Leadership:* BWDA leadership has played a crucial role by ensuring that the senior management team listens and responds to various challenges thrown by local banks and other stakeholders. BWDA/BFL senior team had to regularly discuss such issues and explain why the particular strategy was being adopted. For example, it was important to keep staff motivated by explaining why the development and commercial roles were both important and how BWDA and BFL by working closely together can enhance the development impact.
- *Staff as investors:* Many BWDA/BFL staff has modest socio-economic background and have not invested in a *“for profit”* company before. It took substantial convincing in the beginning to mobilise staff contributions towards share capital, especially as BWDA salaries are quite modest. BFL has made profits since inception and declared dividend, which has provided assurance to the staff who have purchased more shares in the subsequent rounds.
- *SHG members as investors:* SHG members as BFL investors also created significant communication and logistical challenges. Considering the reputational risks as well as practical difficulties, BFL has now stopped issuing fresh shares to SHG members (see section 2.2)
- *Management of Old Staff:* How to balance the rising aspirations of old staff and keep them motivated while meeting BFL's need for new skills and professional staff (see section 7.4)? Uniform salary and other benefits amongst BWDA and BFL staff have reduced one area of potential tension. Some of the well performing staff have been promoted to increase their responsibility, status and salary. BFL has also

²⁰ Although use of money lenders and other informal and formal financial instruments is widespread, the popular perception/stereotype of money lending is quite negative e.g. Money lender as an exploiter of people facing unfortunate situations

been hesitant to recruit new staff at senior level and so far has recruited only six such staff. Ex-Bankers are working as GM, Senior Manager, Internal Inspectors, Manager and Accountant.

- *Interface with Government:* In addition to BFL, the Government and banks actively work with the SHGs in Tamil Nadu. BFL's work with SHGs has evolved from BWDA's implementation of the Government of Tamil Nadu programmes. Even now in 5 districts²¹ of Tamil Nadu, BWDA/BFL have been allotted a specific work area by the Government. BWDA/BFL Staff attend monthly meetings with the Government officials at the district level, SHG leaders congregate into a Panchayat Level Federation meeting every month, where elected Panchayat leaders also participate, and BFL/BWDA recommends SHG applications for bank loans. BWDA promoted SHG members are also entitled to the subsidy and other benefits offered by the state government programmes.
- *Developing and Formalising Systems:* Along with increasing scale of BWDA/BFL programme has come the need to establish clear procedures, processes and systems, so that many of the informal arrangements of managing small volumes are formalised and each of the staff member is clear of their role.

3.3 Growth Strategies

A number of interlinked strategies have been used to enable high growth without increasing risks and costs of scaling up:

- Organisational Leadership has been crucial to build and motivate the core team, earn trust of SHG members and use the emerging experience to strengthen BFL products and processes.
- Formalisation/Transformation (from Society to NBFC) has improved access to financial institutions and improved the prospects of further equity and debt to scale up the programme.
- Standardisation has played a crucial role in expansion. Products and procedures have been standardised, so that even less experienced staff and freshly recruited Cluster Coordinators can be fully trained over a short period and then are mentored and guided on the job. Only standardisation can enable rapid expansion of staff without causing organisational chaos.
- Standardisation has also enabled decentralisation, and together with clear authority and accountability, relatively fewer field issues need to be referred to the headquarters.
- BWDA has refined its low cost and community based model during 1992-2003. The ability to achieve branch viability within one year²² has enabled BFL to be self sufficient and not to be grant-dependent. Key ingredients include: achieving peak membership and loan portfolio for each branch; keeping delinquency rates low; and division of responsibilities between BWDA/BFL and SHG Animators²³ and members. No external technical support is required to operate the system and offices are furnished with simple functional furniture and minimal amenities.
- Respond to community demand for diverse development services to meet community needs and enhance goodwill for BWDA.
- Rising productivity has enabled BFL to reduce operating costs and sustain moderate interest rates for customers.
- Regular internal controls (cross-checks, surprise visits and internal audits) have been established to reduce possibilities for errors and frauds. These have been supplemented by frequent external ratings and bankers' visit which provide independent assurance and enhance internal audit skills.
- Benchmarks and incentives have been established so that all the staff are focused on key indicators such as timely repayment, enrolment of new members, and growth in loan portfolio.

3.4 Market Segmentation

BFL currently provides financial services to three clear segments: SHGs, individuals and institutions. The SHG is the predominant market channel and accounted for 97% of the total financing during 2007-08. Individual loans were introduced in 2003-04 to meet the demand for higher loans from some SHG members

²¹ Tamil Nadu has 30 districts, out of which BFL is working in 8 Districts. BFL activities in 5 districts are under the *Mahilir Thittam* programme.

²² Initial branches were viable in 2003-04 itself.

²³ Animator is the leader of the self help group and plays an important role in group formation, conducting meetings, keeping accounts and cash and representing the SHG in various forums such as panchayat level federation meetings.

and to diversify customers served. SHG graduates as well as other entrepreneurs are financed on an individual basis. Initially unsecured individual loans were sanctioned based on recommendations of the SHGs. These unsecured loans repayable over a 14-28 week period were discontinued due to poor loan portfolio quality. Detailed procedures for individual lending have been drawn up and individual loans are only issued against collateral. Overall BFL has taken a cautious approach to individual lending so far and only 1,171 loans have been disbursed over 5 years. Average loan size is Rs.65,000 but all loans above Rs.100,000 but below Rs.500,000 are recommended by the Management and approved by the Executive Committee. All loans above Rs.500,000 are approved by the BFL board.

Table 3.2: Loans Disbursed (Cumulative from inception till March 2008)

	Product	Number of Loans	Amount Disbursed (Rs. Million)	Average Loan Size (Rs.)	% of Loan Disbursed
1	Loans to SHG members	488,379	2,616.6	5,358	97%
2	Individual Loans	1,171	76.2	65,073	3%
3	NGO/Institutional Loan	80	7.5	93,125	0%
	Total	489,630	2,700.2	5,515	100%

To support small NGOs, SHG federations and other institutions unable to borrow directly from financial institutions, loans of up to Rs.1 million have been sanctioned by BFL since 2005-06. BFL finances only those institutions that have been in operation for at least three years and are willing to offer collateral security and post dated cheques. 80 such loans have been sanctioned since inception (between 2003 and 2008) at an average loan value of Rs.93,125.

Although initially started in rural areas, the urban SHG programme was started in the year 2000. By 2008, 16% of the SHGs are in urban areas. Unlike many MFIs, BWDA-BFL also promotes SHGs with male members. However while male members account for 15% of membership, they contributed only 8% of the savings collected by March 2008. An average male member had saved Rs.2,693 as against an average women member saving of Rs.5,445. This reflects the age of the SHGs much more than frequency or amount of savings by the male members.

BWDA and BFL have posted staff in Andaman and Nicobar islands in February 2008 to start operations there. The operations in Pondicherry were started in November 2003. However Tamil Nadu still accounts for over 97% of the loan portfolio as on March 2008. BWDA has estimated that its SHG members account for only 1.31% of the 22.70 million population in the 10 districts that it is currently covering in Tamil Nadu and elsewhere. The highest outreach of 3.88% has been achieved in Cuddalore district and in many districts the outreach is lower than 1% of the district population. This confirms significant opportunities for future growth despite rising competition.

3.5 Intensive and Extensive growth

BFL has followed a combination of intensive²⁴ and extensive strategies to achieve growth.

- BFL senior management has established norms for a standard branch. For example, each branch is expected to have a loan portfolio above Rs.50 million. Senior managers undertake regular reviews to ensure that each branch meets the targets on loan portfolio and number of borrowers. BFL staff is allocated to each branch as per current and anticipated workload (intensive).
- BFL has frequently made revisions in the Operations Manual to enhance SHG entitlement²⁵ for a bigger loan. This creates incentives for repayment and responds to increasing demand and absorption capacity of SHGs (intensive).

²⁴ Intensive strategy focuses on getting more out of existing infrastructure whereas extensive strategies focus on expanding infrastructure and geographical areas.

²⁵ Starting with up to Rs. 7,500 per member during the first loan cycle, SHGs can go up Rs. 25,000 per member in the 5th loan cycle

- BFL allows SHGs to make the primary assessment of loan demand and purpose to meet members' diverse products needs: general, agriculture, animal husbandry, micro enterprise, housing and education loan (intensive).
- BFL has introduced financial products for new target groups to meet demand and diversify the type of customers served. For example, individual loans up to Rs.500,000 for businesses in urban and rural areas and loans to institutions have been offered in last few years (extensive).
- BFL has introduced its programme in new geographical areas: urban areas since year 2000, and in states outside Tamil Nadu since 2003 (extensive).

4.0 Corporate Brand/ Identity

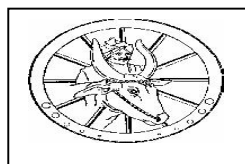
4.1 Brand Management

As an established NGO in Tamil Nadu supporting a number of high visibility programmes such as schools, an ambulance service, post Tsunami rehabilitation etc. BWDA is well known amongst the development sector workers, especially in Tamil Nadu. However, its microfinance programme is less well known outside its work area.

In the work area, BWDA has five multi-purpose centres, which have a school, college, a skills training centre, or a programme for children during school vacation. BFL branch is also located at such centres. This provides multiple points of contact and credibility with the households, community and local leadership. In addition, 18 of the BFL branches are in a BWDA or BFL's own building, which reflects long term commitment to the area and inspires trust of the customers. Many of the new branches are bifurcation of an existing branch, which provides some existing customers and credibility even for a new branch being set up.

BWDA also follows a unique approach of having a formal and different dress for its staff, SHG animators and SHG members. These staff and SHG members wear their dress on various formal occasions, carry an identity card, and all this creates a strong sense of identity as well as very high visibility in the area. For example, at the monthly block level meeting, 30 to 60 women Animators representing their SHGs will congregate at the BFL branch and each of them will be wearing the same dress, prescribed for the Animator. Any of the BWDA/BFL staff and SHG members attending this meeting, can be easily identified by their different dresses. While travelling to and from the branch, the other people in the area notice these Animators/members and associate them with BWDA/BFL work.

Before initiating SHG formation, a village/ward level meeting and cultural programme is organised, so that all village/ward residents and key leaders get an opportunity to hear about the BWDA/BFL programme objectives and method of working. The communication to SHG members is mainly oral. A Cluster Coordinator is the most regular contact, though Field Monitor, Branch Manager and other senior staff are also often visiting the SHGs, members and the Panchayat/Cluster level federation meetings.



BWDA has a logo (see left box) which is used in all communications and signboards. While setting up BFL, a variant of the BWDA logo was developed (see box on right hand side). However many staff feel more affinity to the BWDA logo and there is still an ongoing debate in BFL as to whether a separate BFL logo is needed. Most senior staff has grown with the

BWDA logo and they find the BFL logo much more complex to relate to. At a practical level, the BFL logo is dense and much harder to sketch by local painters.



In the work area, each of the SHG members is issued a formal BWDA identity card, which has to be surrendered when leaving the group. BWDA and BFL boards appear at the branch level but not at the village level, although all the SHG stationary carry the logo.

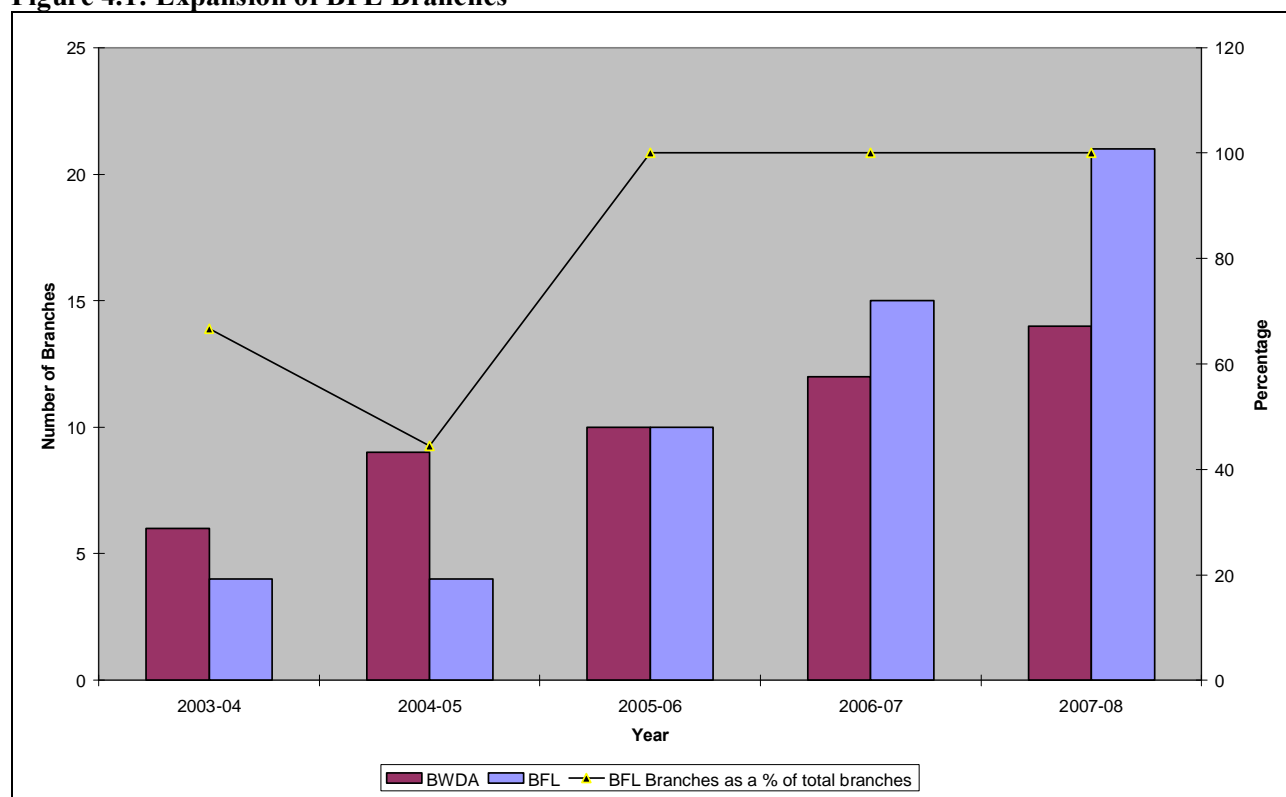
4.2 Physical Branch Expansion

An average BFL branch employs 13-25 staff and serves 600 to 1,000+ SHGs (i.e. 12,000 to 20,000 SHG members of which 9,000 to 15,000 active borrowers). A typical BFL branch will cover a distance of 15 kms in rural areas and about 5 kms in urban areas. Expanding from 9 branches in March 2005, BFL currently operates 21 branches.

In existing areas, the branch expansion is determined by growing membership beyond the branch threshold. If field staff assess that potential exists for more members to join from the neighbouring villages/towns and an additional branch can become viable, a new branch is started. 11 out of the 21 branches emerged this way, by bifurcation²⁶ of an existing branch. In a new area, to assess the business potential, raw data (such as population, economic opportunities, income levels etc.) is used along with personal field visits by senior BFL staff to assess potential for membership enrolment. Currently 84% of the branches are in Tamil Nadu.

The chart below shows how branches have increased over the years. In the initial phase, all microfinance was delivered by BWDA but over time 99% of microfinance portfolio is managed by BFL. During 2006-08, the BWDA branch indicates that there is some BWDA outstanding in a BFL managed branch.

Figure 4.1: Expansion of BFL Branches



5.0 Product Strategy

5.1 Market Research

BWDA was not set up to provide financial services but has evolved into this role based on responses from SHGs and being influenced by the overall trends in the microfinance sector. During 1998-99, the core product of SHG financing emerged from direct demand from SHG members for additional funds. BWDA team does not undertake formal market research but uses its interaction with SHG members to observe trends, discuss members' feedback and possible BWDA response. For example, individual loans are already available for supporting education. BFL is purchasing all the equipment to introduce loans against jewels in late 2008. Other financial products being considered are money transfer and safe deposit locker services.

²⁶ Rasapalayam branch was the most productive as it led to the opening of 4 more branches in the same area.

BWDA/BFL staff provided some examples of how active communications with its members/ customers has helped them to launch popular products.

- In 2002-03, BWDA noticed that SHG members had high expenditure around various local festivals. Members increased their borrowings at that time but felt short changed as every one rushed to buy similar material at the same time and prices in local markets escalated. BWDA introduced different packages of commonly purchased materials and distributed this in kind. Due to bulk purchase and advance orders (up to two months before the festival), BWDA could supply these packages at prices no local trader could match. BWDA charged Rs.500 for the package, which would cost Rs.550-620 in the local market.
- When the logistics of bulk purchase, packaging and distribution became onerous, BWDA started exhibitions for the SHGs members to sell and buy their products. To ease transactions, a concept of credit card was introduced. Essentially a Rs.30,000 credit limit was set for each SHG and SHG members could purchase from any seller in the exhibition. The seller was able to increase his/her sale and could either take cash from BWDA at 5% discount to sale value or take payment after 15 days. The buyers could repay the credit availed within 10 days without interest or pay 24% annual interest on borrowed amount. During November 2004, seven such exhibitions generated sales of Rs.3.44 million. But BWDA discontinued this product as sellers sensing monopoly arrangements started over charging borrowers and BWDA was worried about the risks to its reputation.
- Further discussions with members led to BFL launching a festival loan. Any member can take a one time festival loan of Rs.1,000 to Rs.2,000. The loan can be quickly disbursed after the approval by a Senior Manager. During last year 271,531 members took festival loans of Rs.369.46 million.
- Noting that cashew plantation was widespread in Rasapalayam area and farmers had a working capital need for two months to finance pesticides and other inputs before cashew nut sales started, BFL introduced a special product for these farmers. BWDA was able to disburse Rs 7.52 million as loans to 3,626 members.

5.2 *Standardisation of products*

The emergence of festival loan in section 5.1 indicates an active process of discussion amongst BFL-BWDA staff and between staff and borrowers. Over time the products are standardised and all the procedures are captured in the operations manual, so that each of the staff member has a clear understanding on operating rules. To reflect emerging experience and to enable further decentralisation, the operations manual is regularly updated. The *MicroSave* team has worked closely with BFL-BWDA during 2006-08 to document these processes (using flowchart-based process mapping), so that each step is clarified and gap between expected and actual procedures are further reduced. A sample is included as an Annex to this paper.

Table 5.1: Key Features for Core Loan Products offered by BFL

Loan Features	SHG Loan	Individual Loans
Loan Size (Rs.)	1 st loan cycle: Rs.100,000 (subject to <30 times SHG savings and Max. Rs. 7,500 per member) 2 nd loan cycle: Rs.200,000 3 rd loan cycle: Rs.300,000 4 th loan cycle: Rs.400,000 5 th loan cycle and onward: Rs.500,000 (subject to <7 times SHG savings and Max. Rs.25,000 per member)	Based on the need and capacity of the client. From Rs.50,000 ó Rs.5,00,000. (Jewel Loan will be part of Individual loan ó Not yet commenced)
Loan Term	15 - 36 months	12 - 60 months
Instalment	Monthly	Monthly

Loan Features	SHG Loan	Individual Loans
Client Profile	<ul style="list-style-type: none"> • Living below the poverty line and/or monthly family income below Rs.5,000 per month • Age limit of the clients between 18 and 55 years • Members from same area/ village • Priority given to married women. • There should be no blood relation within the group • Willing to save, attend group meetings and training programmes • Willing to start income generating activities • Can prove their identity (Election identity card, Ration Card, Passport etc) 	<ul style="list-style-type: none"> • Living below the poverty line and/or monthly family income below Rs.5,000 per month • Members of successful SHGs ready for bigger loans • Age limit of the clients between 18 and 50 years • Can prove their identity (Election identity card, Ration Card, Passport etc) • SHG Graduates and other economically active SHG members having specific needs.
Price	<ul style="list-style-type: none"> • Interest rate: 16% per annum on a declining basis since June 2008 • Other processing fee: 1% of loan amount • Death Relief Fund: 1% of loan amount 	<ul style="list-style-type: none"> • Interest rate: 16% per annum on a declining basis since June 2008. • Other processing fee: 1% of loan amount. • 1% Death relief fund ó optional.
Process	<ul style="list-style-type: none"> • Loan to group after completion of minimum 3 months successful savings, in case of weekly meetings. (In case of fortnightly/monthly meetings, minimum of 6 months) • Ranking / Rating of SHGs before loan sanction 	<ul style="list-style-type: none"> • Based on individual character, capital, capacity. • Need based productive activities • Repaying capacity • Property security as collateral

5.3 IT Systems

BWDA-BFL tried a few software options, but concluded that the available software did not really meet its needs. BWDA-BFL developed a long term relationship with a Chennai based software engineer who has designed a customised software product for BWDA-BFL. He visits Head office and branches on a regular basis (mostly quarterly) to update the software as per changing needs and to deal with any implementation problems. This software engineer has trained a few head office staff to deal with usual problems and can be called for special visits in case of more serious problems.

The Loan Portfolio Audit performed by *MicroSave* team in 2007 (Prakash et al 2007) noted that this software was designed for much smaller data volumes. The accounts are maintained for each SHG (1,200-1,350 accounts per branch) and not for each SHG member²⁷. Drawing on practical examples noted during the audit, the team provided detailed observations and recommendations to improve the IT system. BWDA-BFL have followed up these recommendations with the software provider and dealt with challenges on different software versions, data security and other areas vulnerable to errors and frauds. With growing volumes and complexity, at some stage BFL will need to consider strategic shift to a data management system with much higher capacity and capability. The challenge for BFL-BWDA is not only the prospects of significant increase in capital and operating costs but also significant hassle and risks in switchover to a new software as well as the skills required to purchase, maintain and fully leverage the new technology being considered.

6.0 Product Delivery

6.1 Delivery Channel Strategy

Although to expand portfolio and diversify risks, individual and institutional loans have been initiated, 97% of the loans are routed through the SHGs. As noted in section 2.4, SHGs are organised by BWDA and handed over to BFL. The criteria used to select SHG members, is provided in section 5.2 above. Each Cluster Coordinator promotes two new groups every month. The SHG Animator (group leader) is provided with a 6 day formal training within 45 days of SHG formation. Each of the SHG members is provided four days training with in the first three months of group formation.

²⁷ SHG member wise accounts are maintained by the SHG.

BWDA participated in a Social Rating review in 2004. M-CRIL team accorded a + rating and concluded BWDA has a clear statement of social mission, targeting the poor and vulnerable with good adherence reflected in outreach to disadvantaged groups and a substantial number of the poor as members of the Self Help Group (M-CRIL 2004).

During the author's visit, members in Rasapalayam branch area talked of being able to include different women from minorities and lower castes into the group. While the BWDA focus on serving poor households has remained, over time some of the poor members have become non-poor and other non-poor women are joining the groups. As an animator from Periatthaur Panchayat summarised *Many women have wasted [time] over five years by ignoring these SHGs. Women who are not poor are also ready to follow the SHG discipline and take loans.*

A group of 20 members belonging to scheduled caste families in Rasapalayam started their group 11 years ago. Starting with savings of Rs. 20 per month, the saving rate was progressively raised to Rs.100 per month. After managing the group for 8 years, they distributed Rs.400,000, (Rs. 20,000 to each of the 20 members). Out of this, 40% of the fund was from interest earned by the group.

All the previous members rejoined the new group (after distribution) and in the last three years, the group has built up a fresh fund of Rs.150,000. The members are getting more ambitious and want to save up to Rs.500 per month, so that they can take loans of Rs.20,000 to Rs.50,000. Asked what had changed in the last 11 years, some of the key changes mentioned by the group members were:

- a) Earlier lived in thatch houses, now many members have a *pucca* house and facilities such as TV, mixer and grinder.
- b) Earlier dependence on mother's house is no longer an issue and even men ask women to arrange money.
- c) No one trusted the group earlier but now even the bank manager is willing to give Rs.200,000 loan.
- d) Education is the first priority now and 25 children from this area are now in the nearby BWDA school.

6.2 Partnerships

BFL model of financial services delivery builds upon strategic partnerships at various levels. Section 2.4 covered the symbiotic relationship between BWDA and BFL. BWDA/BFL promote the SHG, but the SHG is a separate informal institution and SHG members decide whether and when to borrow from BFL. Similarly SHG animators/members from 10 to 20 neighbourhood groups within a 2-4 km radius come together as Panchayat Level Federation²⁸. Panchayat leaders (majority of whom are women) usually participate in these meetings and various local issues and government schemes are discussed. BFL-BWDA Cluster Coordinator and other staff also actively participate in these meetings. This format has been adopted throughout Tamil Nadu and ensures regular dialogue with the local leaders. This mechanism also provides an opportunity to BWDA-BFL to acknowledge as well as respond to local concerns and opportunities.

BFL is often the first external lender to the SHG but the local banks also lend to the same SHGs²⁹ and BWDA/BFL staff are often asked to recommend applications for bank loans. Some of the BWDA/BFL senior managers attend the regular monthly meeting with district officials to ensure close coordination with the government programmes and with other NGOs operating in the same district. There is clear earmarking of geographical areas amongst microfinance providers and a new NGO cannot start working with a BFL-BWDA promoted SHG. A group has to seek a no objection from its promoter before linking with another microfinance organisation.

BWDA and BFL have limited capital of their own. To sustain the rapid growth in loan portfolio, BFL has had to take bigger loans and work with more financial institutions. From one partnership in 1999, BFL now works with 13 financial institutions to mobilise loan funds.

²⁸ Panchayat Level Federation is a Tamil Nadu Government promoted concept. Over time BWDA-BFL will be able to assess the benefits and costs of this active engagement with Government programmes by comparing its work in Tamil Nadu with other states.

²⁹ Tindivanam Branch Manager referred to SBI giving large loans of Rs.1,000,000 each to two SHGs in Patnam.

Most SHGs have a bank account but the SHG members prefer to take loans from BFL in cash. Local money transfers through cheques from BFL account to SHG bank account takes considerable time³⁰ and attracts bank charges, both of which SHG members want to avoid. In addition, some local bank managers do not really like maintaining the accounts for the SHG members, as they crowd the local branch, empty their account soon after the deposit is made and leave no deposit or incentive for the bank.

6.3 Branch Establishment and Management

The core BFL-BWDA function is to organise, support, and finance self help groups. The women or men groups, of 20 members each, are led by an Animator (group leader) and supported by a group Representative. The Animator and the Representative are members of the SHG and not employed by BFL. Initially BWDA and now BFL employ 10-12 Cluster Coordinators at each branch. Cluster Coordinators are front line BFL field staff and oversee 75-100 SHGs (about 1,500 to 2,000 members). This is much higher than the number of clients covered by loan officers in most MFIs. The key factors to enable such wide coverage and to keep field operation costs low are:

- Although the SHGs meet every week, most groups save only once a month. Moreover, the Animator is expected to keep the books and Cluster Coordinator has a monitoring and advisory role. With increasing mobile phone ownership, the trips to SHG for small query or advice are no longer needed.
- The Cluster Coordinator does not need to collect, carry or disburse cash. All loan disbursements and repayments are handled at the branch level.
- The Cluster Coordinators try to cover each SHG at least once a month and multiple SHGs in a village/ward enable 4-6 groups to be covered in a day.
- All SHG members are expected at the monthly Panchayat Level Federation Meeting (about 70% members attend). The Cluster Coordinator attends this meeting, which provides an important forum for communication between various levels of BFL staff and the SHG Animator/members.
- All SHG Animators attend the monthly block level meeting at the BFL branch, which is an additional opportunity to meet BFL branch team formally and informally.
- The state government programme pays Rs.27.50 per group per month for monitoring. This can cover about 40-50% salary of the Cluster Coordinator but not all field staff. All the travel and other costs of the SHGs are met by the group and not covered by BFL. In addition, BWDA charges for the stationary (Rs.500 for new groups) and the annual audit.
- The Animator has various incentives to maintain the group performance:
 - a) The Animator is paid 0.5% of the loan principal incentive from BFL, if SHG repays the entire borrowed amount on time.
 - b) Every three to five years, SHGs take stock and 20% of the profits net of savings and expenses are allocated to reserves. Animators usually are not paid monthly but get 10% of this profit. Rest of the profits³¹ are distributed to members (including Animators) in the ratio of savings made over the period. This is estimated at Rs.300-400 per month for an average SHG managing a Rs.200,000 portfolio.
 - c) Animators are paid for food and other expenses to attend various training programmes sponsored by state government, financing institutions and others.
 - d) Some of the Animators are motivated by the prospects of being recruited as a BFL Cluster Coordinator.
 - e) The role of Animator bestows status and profile in the local area.

Cluster Coordinators report to the Field Monitor, who in turn reports to the Branch Manager. Depending upon workload (i.e. number of SHGs, loan outstanding and borrowers), number of staff at the branch varies between 13 and 25. Figure 6.1 provides an organisation chart for the field staff.

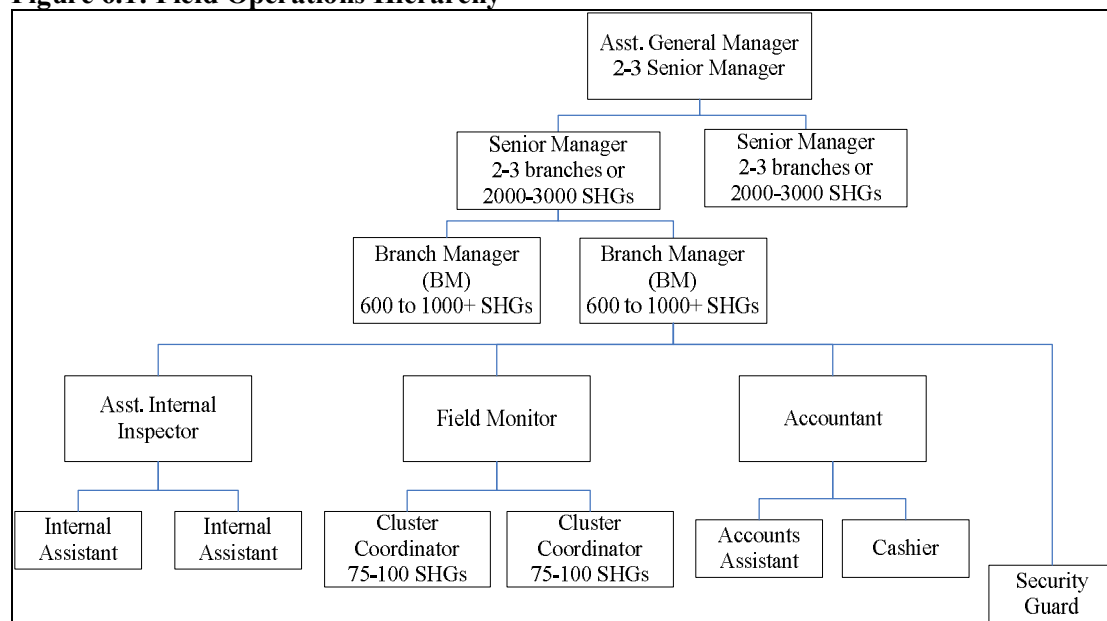
³⁰ Bank clearing can take up to 30 days and animators/ members talked of wasted travel time between the village and the bank branch

³¹ By March 2008, the SHG savings were Rs.1,474 million and accumulations due to interest earned (less paid), subsidy and other income was an additional Rs.1,450 million. SHGs over three years old normally charge 18 to 24% interest on this fund.

In addition to the Cluster Coordinators, the Field Monitor and the Branch Manager also visit the villages/wards on routine and surprise visits and attend some of the monthly meetings at the Panchayat and Block level. The internal inspection team at the branch undertake SHG rating and also attend many of the monthly meetings. In addition, Senior Managers visit or conduct periodic reviews. The external audit team visits the branch and a sample of SHGs every quarter.

Branches typically cover a radius of about 15kms in rural areas and about 5kms in urban areas. Cluster Coordinators cover their areas of operation by using public transport. Only some of the Cluster Coordinators are using personal two wheelers (cycles/mopeds). BFL provides loans for the purchase of vehicles. Most Field Monitors and Branch Managers use motorcycles.

Figure 6.1: Field Operations Hierarchy



6.4 Interest Rates

From June 2008, BWDA collects a sum of Rs.500 per group towards registration and SHG stationery (registers, ledgers etc.). BFL has increased annual interest rates for SHGs from 15% to 16%. BFL charges interest on average daily declining balance basis (not flat interest rates). BFL charges 1% processing fees and 1% risk fund and pays 0.5% incentive to the Animator for timely repayment. To offer interest rate calculations on daily outstanding basis, BFL uses fully computerised system. This is much more complex accounting than flat interest rate system but is relatively more fair and transparent for the borrower. For example, early repayment of loan saves interest payable. BFL interest rates must be amongst the lower quartile of interest rates in the microfinance sector, as most MFIs charge between 24 to 36% per annum.

BWDA initially fixed 12% declining interest rates (lending rate from BWDA to SHGs) in 1999 to meet conditionality of lending by *Rashtriya Mahila Kosh*. When borrowing from SIDBI, this lending rate was no longer viable and had to be raised. During 2001-02 BWDA charged 12% flat, partly to compensate the SHGs Animators. Current interest rates are 16% declining for SHG loans. Financial Institutions provide bulk loans to BFL based on the market conditions. However, BFL is forced to pass on this increase in interest rates to its members.

BWDA-BFL is keen to ensure that poor customers are charged reasonable interest rates. BFL origin from BWDA’s charitable work, views of its chief promoter and board, initial partnership with *Rashtriya Mahila Kosh* as well as previous exchanges with Bankers and District Administration (section 2.1) have collectively influenced interest rates policy. This is also reflected in BFL’s hard negotiations with banks and financing agencies to drive down borrowing rates. Mr. Thambi acknowledges that he could get much more loan funds,

with much less effort, if BFL was not such a hard negotiator³² and simply accepted interest rates offered by the banks.

BWDA-BFL likes to compare its lending rates (to its borrowers) with banks and not with the money lenders. Banks charge 9-12% to the SHGs but do not have a field extension team to deliver the services to SHGs in the village. Discussions with SHG Animators confirmed that bank loan disbursement procedures are much slower and there were reports of needing to spend considerable time and pay occasional bribe to acquire all the paper work needed and to follow up on bank loans. So while the nominal bank rates are lower, the effective rates vary considerably and can be much higher than BFL. Banks can mobilise public deposits at an average cost of 4 to 6%, while cost of funds for BFL ranges from 10 to 12% per annum.

BWDA-BFL financed groups charge 3% per month (36% declining annually³³) in the first two years for internal lending³⁴. Over time the SHGs reduce their interest rates to 18-24%. Net of expenses, most of this interest is returned³⁵ back to the members at regular intervals.

The Indian Finance Minister, P Chidambaram, comments³⁶ at a Bankers Conference in late 2006 after the Andhra Pradesh Government challenge to microfinance institutions confirms that interest rates continue to be a real issue for Indian microfinance. The Finance Minister said, *‘We have a mindset of microfinance in India that any interest rate not less than 20-25% is exploitation. A rate of 25% charged by money lender may be usurious. But for funds generated from banks, that pass through intermediaries and reach the end consumer, there is a cost in the process. We have to recognise that microfinance activity carries a price and educate people accordingly.’*

6.5 Customer Service

74% of BWDA-BFL staff and 85% of the SHG members are women. In addition, many of the field staff are from SHGs and they managed SHGs as an Animator before recruitment. BWDA/BFL considers this as an important strategy to relate to and understand customer needs and improve customer service. This is unusual, as most MFIs have largely male staff from outside the work area, providing financial services to largely women customers.

Discussions with BWDA/BFL field staff and SHG members revealed BWDA’s strong sense of customer service. BWDA Senior Managers frequently talk of keeping their commitment to SHGs and other borrowers and not letting them down. BWDA is sensitive to pricing of loans. Mr. Thambi also pointed to many MFIs directly mobilising savings and discouraging direct linkage to banks. However BWDA follows a responsive approach and is not trying to monopolise all transactions with SHG members. Another example of its approach is that even though BWDA has corporate agency for Life Insurance Corporation, it resists the aggressive, hard sell. During 2003-2008, only 4,352 policies have been sold³⁷. This represents only 0.86% of the number of loans distributed during the same period.

7.0 Operation Management

7.1 Procedures/Processes

To guide its operations and ensure that all staff members follow established procedures, an Operation Manual was prepared in BWDA’s initial stages. A copy of the manual is available with each of the senior staff and at each branch. All staff members are guided by the manual in performing their duties. The first two

³² For example, BWDA stopped taking subsequent installments of a sanctioned loan from a large private bank, when the bank unilaterally increased its lending rate on already sanctioned loan from 8.6% to 11.75% due to changes in market conditions.

³³ Some groups in Pondicherry started with 24% annual interest rate and such variations are permissible.

³⁴ Loans to members, out of savings accumulated by the group.

³⁵ Most groups take stock every 3-5 years. The accumulated savings and profits (net of savings) are distributed and the group is restarted. Before distribution 20% to 30% of profits is set aside for group reserves and 10% for the services provided by the animator. The balance profits and savings are distributed in proportion of savings contributed by each member.

³⁶ See Economic Times 4 November 2006 ‘FM defends interest rates on micro-loans’

³⁷ premium collected Rs 7.98 million

chapters of the manual cover the origins, vision, mission, board and organisational structure. Chapter 3 and 4 cover the various stages of microfinance operations and training. Chapters 5 to 8 cover products and services, range and fees for various products, approval authority, branch operations and documentation, and delinquency management. The last section provides roles and responsibility for various staff, salary and other benefits for staff. All the key forms and formats are annexed to the manual for easy access.

The current version was issued in February 2007. However, reflective of the pace of growth and change, the manual is updated every year. February 2007 manual replaced the April 2006 version and a new version will be issued soon. A number of staff participated in discussions on what needed to be changed and why, and an updated draft is being finalised for approval. *MicroSave* team provided assistance in process mapping so that all key processes of group formation, internal lending, loan demand, repayment and delinquency management are clearly mapped. The detailed discussions with field staff on some of the common procedures, including gap between recommended procedures and actual practice, highlighted how important it is to be absolutely clear on various steps and to ensure that all possible risks at each stage are identified and agreed risk mitigation strategies are implemented effectively and efficiently.³⁸

7.2 Risk Management and Internal Controls

Over time a number of risks have been identified and addressed by formalising procedures. For example:

- Self Help Groups start by collecting savings from members and use these funds to give loans to members. BWDA gives loans only after tracking savings and loan repayment behaviour for at least 3 to 6 months.
- Each SHG member is given an identity card and this helps in easy identification.
- Authority is clearly divided across organisational staff. For example, Cluster Coordinator, Field Monitor and Branch Manager assess and recommend the SHG loan but only the Senior Manager can sanction the loan up to Rs.100,000. For higher amounts, the Senior Manager recommends but the sanction is accorded by the Assistant General Manager/General Manager/Managing Director or the Board depending upon the loan amount requested.
- All BFL loans are disbursed at branch level. Loans are disbursed to all SHG borrowers together in front of other group members. Loan repayments are only accepted in the branch or through credit in BFL bank account.
- At the branch level roles are divided amongst Branch Manager, Accountant and Cashier.
- No cash is collected or disbursed in the village, which significantly reduces opportunities for errors and frauds and increases efficiency of the Cluster Coordinator.
- An internal rating is undertaken by a separate internal audit team as a part of the procedure for loan sanction.
- Considering the initial experience of unsecured individual loans, these loans were discontinued. Only collateral based loans are now sanctioned to individual borrowers.
- Loans above Rs.20,000 are disbursed by bank cheques.
- Cash limit for each branch are fixed and every evening the branch submits its cash balance by phone, email or SMS.

7.3 Regulatory Compliance

During 1999-2003, most microfinance was delivered by BWDA, the NGO. Annual reports were filed with the Society Registrar and no follow up action was needed. To respond to the bankers' concerns on BWDA microfinance programmes, BWDA invited NABARD³⁹ officials to visit its programme. After spending sometime reviewing BWDA work, NABARD has offered to invest Rs.10 million in BFL preference shares.

³⁸ For example, an efficient process will focus on how many SHGs have been formed per unit of time or effort, where as effectiveness will be determined by whether the outputs/ outcomes correspond to organisational priority and achievements. Effectiveness indicators may include ó does the SHG have the right type of members and does it follow the right processes, such as regularity of meetings and participation.

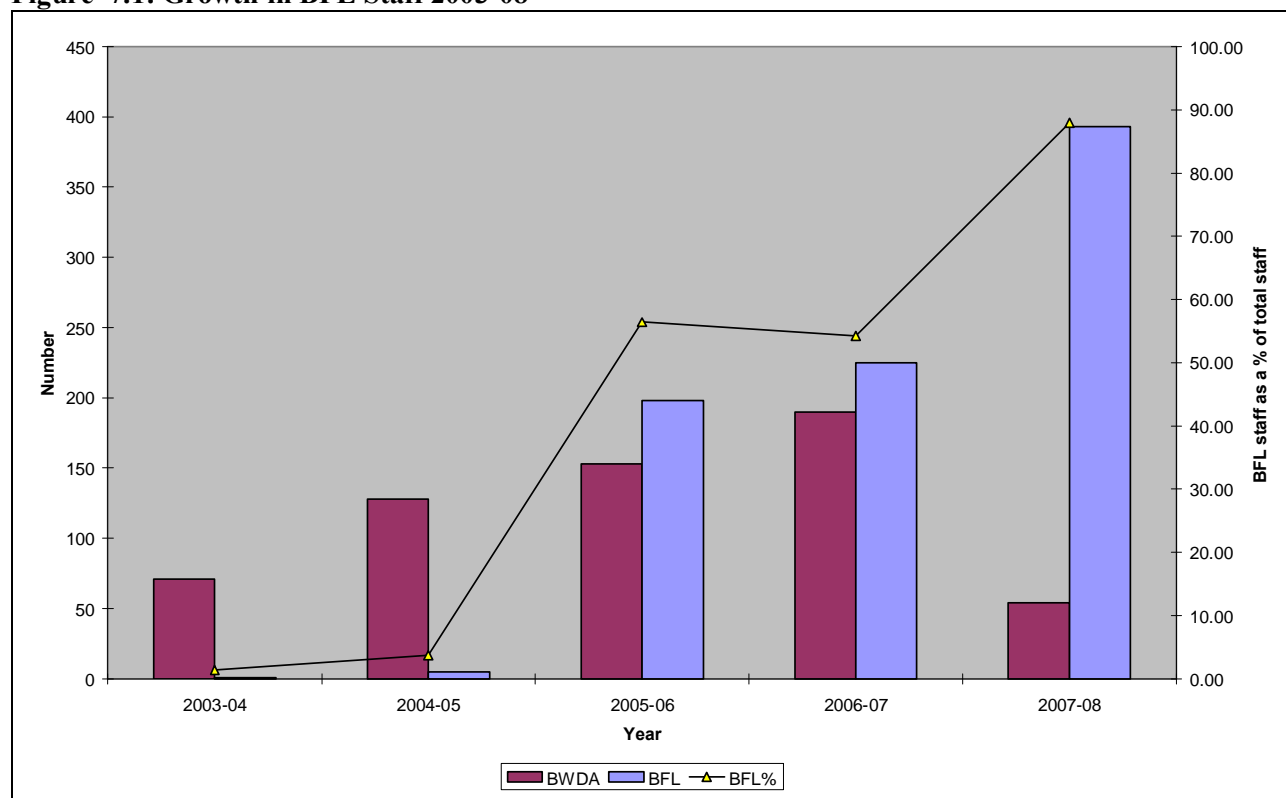
³⁹ National Bank for Agriculture and Rural Development has played an active part in providing policy support to encourage Banks to lend to informal groups. In the Microfinance Bill introduced in the Parliament, NABARD is proposed as the regulator for the microfinance sector.

When the BFL started operations, an RBI team visited BFL for an audit inspection. Since BFL is a non deposit taking (Class B) NBFC and the current portfolio is less than Rs.1 billion, it needs to submit financial statements annually. In addition, there is occasional query from the RBI, which is promptly replied to by BFL. This may change in 2008-09, when the portfolio will cross Rs.1.0 billion and more regular reporting may be mandatory. But so far, the regulatory burden has been light. The fact that one of the BFL Board member is an ex RBI Regional Director also ensures that BFL is well advised on all regulatory and compliance issues. Overall, the RBI is very supportive of the microfinance sector, as the central bank is also committed to financial inclusion in the country.

7.4 Human Resource Management

BWDA and BFL have recruited 314 additional staff during the period 2005-08. Over 2005-08, 206 staff have shifted from BWDA to BFL. By March 2008, BWDA employed⁴⁰ only 54 staff for the microfinance programme and 393 staff were employed by BFL. Only 26 staff (5.8%) work in the head office and rest are located across 21 branches. As noted earlier, BWDA-BFL is unusual amongst microfinance institutions both in employing a large proportion of women staff (74%), as well as in fostering a strong sense of identity through a formal dress. 75% of the staff are estimated to be graduates. The figure below depicts the changes in staff numbers in BWDA and BFL and the rising proportion of microfinance staff directly employed by BFL.

Figure 7.1: Growth in BFL Staff 2003-08



Recruitment and Retention: The most common recruitment is for Cluster Coordinators who are recruited from the operational area they will serve. Many of the Cluster Coordinators are recruited from SHG Animators or other candidates recommended by staff. The recruitment is based on written test and personal interview. Selected staff are provided with preliminary orientation followed by on the job-training through a senior Cluster Coordinators for four weeks. New staff are also asked to work with rating and audit teams for 1 to 2 weeks. Overall, new staff go through six months of training and 12 months of probation period before

⁴⁰ This paper does not refer to additional staff employed by BWDA for schools, colleges and other facilities.

confirmation as full time staff. To recruit Field Managers, Branch Managers and other staff, the candidates have to go through a written test and personal interview. For more senior positions, such as AGMs and General Manager, selected members of the Board participate in the selection process.

The last section of the operational manual deals with HR issues. To deal with growth in staff and to formalise procedures, HR Manual/Service conditions were introduced in 2006-07. Asked as to whether there is any difference between terms for BFL and BWDA staff, Mr. Thambi recounted his learning from the visit to a microfinance programme implemented by a Sri Lankan NGO. He found that different terms for staff working in the NGO and microfinance programme had created friction amongst staff there. Mr Thambi did not want to repeat that mistake. So both BWDA and BFL have fixed similar salary structure and other terms. Incentives available for Cluster Coordinators in BFL are also available to BWDA staff forming groups.

The current Branch Manager at Tindivanam has completed post graduation in commerce, and was working as a house keeping supervisor in a five star hotel, before joining BFL. In June 2005, he joined BFL as an Internal Audit Assistant and was later promoted to be the Assistant Inspector (Internal Audit). In April 2006, he was promoted as a Branch Manger. He currently earns Rs. 12,000 per month and is happy with his move to BFL. He shifted to BFL at a salary similar to his previous job but after four year at BFL, he has received two promotions and is earning four times his joining salary. He is directly responsible for Rs. 58 million portfolio, 35 staff and 1,080 SHGs. He has also received significant on-the-job training. He participated in two national training programmes (Setting Interest Rates & Delinquency Management and Rural Enterprise Development), six state level events, apart from benefiting from many BWDA/BFL internal training programmes. He regularly interacts with 52 Panchayats and 33 Ward level representatives. His wife also joined BFL head office sometime ago.

Key tasks to be performed and performance indicators used for monitoring performance are specified for each level of staff. Salary, incentives⁴¹, promotion procedures, leave and benefits (such as staff loan, loans for vehicle/ house) are clearly listed in the manual. BFL staff can now participate in the future growth of company by share ownership. In addition BWDA-BFL are considering the purchase of a plot of land for a staff housing colony. Staff can either purchase a plot of land to construct themselves or get the houses constructed through a contractor. Some of the staff spoke of BFL responsiveness by pointing to a staff being able to get an emergency staff loan within two hours of application.

Reflecting the emergence of other opportunities as well as the expansion of microfinance sector, the staff turnover has increased in recent years. Staff attrition⁴² rate exceeded 15% during 2007-08. To deal with staff turnover, all incoming staff have to submit original certificates for academic qualifications and a deposit of Rs.10,000 to Rs.25,000. Initially 25% of deposit is collected and rest is deducted from salary in monthly instalments. In case of staff leaving with in two years, they lose their deposit. BFL team pointed out that many of the new staff leave during training period. For example, out of the 48 staff, who left during 2007-08, 27 staff (56%) had worked with BFL for less than 6 months. BFL is also recruiting an HR manager to further improve human resource management practices.

Table 7.1: BFL Staff Attrition Rates

Year	Average staff during the year	Staff joined during the year	Staff left during the year	Staff attrition rate
2004-05	3.0	4	0	0.00
2005-06	101.5	201	8	7.88
2006-07	211.5	38	11	5.20
2007-08	309.0	216	48	15.53

Senior Management Team: Significant expansion of operations and ambitious plans for further growth are creating the need for induction of diverse skills and the need to strengthen the senior management team. BFL has had a General Manager for two years now, although the experience with the first ex-banker recruited to

⁴¹ For on-time loan repayment

⁴² Staff left during the year x 100/average staff during the year

this position was mixed. The then General Manager felt that the company need not have more than one General Manager and left when plans were drawn up to recruit other senior staff at his level. New positions of Chief General Manager and General Managers have been recently created and many of the existing BWDA/BFL senior staff are being promoted to take up responsibilities as Assistant General Managers. So far BFL has managed with a part time company secretary but a full time position is being considered. Two retired senior IAS officers are also being recruited as senior part time advisers to further strengthen interactions with Government. With a significant induction of new skills (such as financial management, internal audit, planning, legal and compliance etc), the organisation will undergo significant changes in organisation structure, culture and working methods. During the study visit, the Board approved these plans and the implementation was about to start. BFL has also purchased a plot of land to build a new corporate office as the current office is already crammed and working space is needed for the growth in the senior management team, as well as the overall expansion of the head office team.

8.0 Future

Ownership: BFL is in early stages of its evolution into a for profit microfinance institution. Ownership and management arrangements are still very much work in progress. BFL initially mobilised share capital from its Board Members, staff and SHG members. SHG members have contributed almost 80% of the share capital but it has been decided to discontinue raising further capital from SHG members. SIDBI provided Rs.10 million transformation loan, which will be converted into equity shortly. Discussions with SIDBI, NABARD and other institutional investors are nearing completion for mobilising further equity capital. Although private equity investors have also approached BFL, so far it is unsure whether commercial equity will add to pressures to further increase lending rates. BWDA is keen to persist with its reasonably priced microfinance model. Successful conclusion of discussions with the investors will widen its ownership and expand BFL shareholders funds. With further tightening of RBI norms for capital adequacy ratio from April 2009, significant portfolio growth is difficult without raising fresh capital. Even during 2007-08, the growth rates dropped from previous years, due to constraints on borrowing capacity. Fresh equity injection will ease a key current constraint on borrowing capacity. Enhanced equity will also bring nominees of institutional investors on the BFL Board. This should further increase BFL access to technical and financial expertise and emerging experience of other rapidly growing for profit MFIs.

Management: BFL has recently drawn up substantial plans to recruit senior management team and restructure its management structure. With induction of new skills (such as financial management, internal audit, HR, planning, legal and compliance etc), the organisation will undergo significant changes in organisation structure, culture and working methods.

Growth Potential: To sustain current lending rates and spread (between cost of funds and lending rate), BWDA will need to continue to maintain or improve its low operating costs and satisfy incoming investors with its pricing strategy and projected future returns. Increasing induction of staff at senior management and rising salary and other operating costs can be offset with savings from increasing scale and efficiency during the growth phase, especially as the current operating costs are low. BFL management sees significant growth potential in the next few years and is aiming to serve 1.5 million customers by 2015. Although BFL has expanded to Pondicherry and Andaman and Nicobar islands, Tamil Nadu still accounts for 97% of its portfolio.

Social Mission: To implement microfinance programme, BWDA-BFL has promoted community based Self Help Groups and introduced innovative products responding to members demand. Over time many of the poor households have improved their economic status and non-poor households have also joined the programme. BFL is keen to retain its pro-poor focus by working in poorer areas and amongst scheduled caste, minority and other excluded households and by sustaining moderate interest rates and offering small loans.

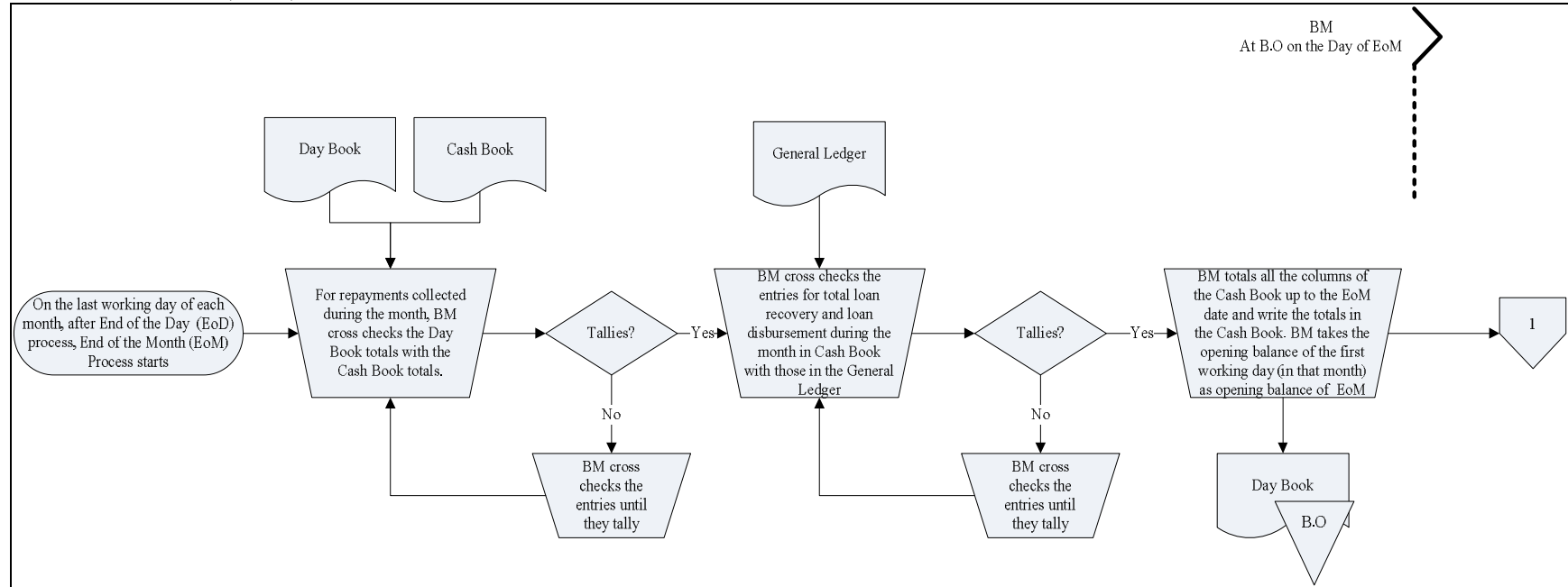
Partnership: BFL has forged complex partnerships with the state government, district administration and the local administration, including Panchayat and city authorities. BFL has had to co-operate as well as compete

with local banks, while forging strategic partnership with banks and other financial institutions at the national level. As its programme expands outside Tamil Nadu, BWDA-BFL will be able to better assess the benefits and costs of active engagement with government programmes, by comparing its work in Tamil Nadu and other states. The decision to induct two former senior civil servants as advisors is indicative of the pressures and opportunities in managing complex relationships.

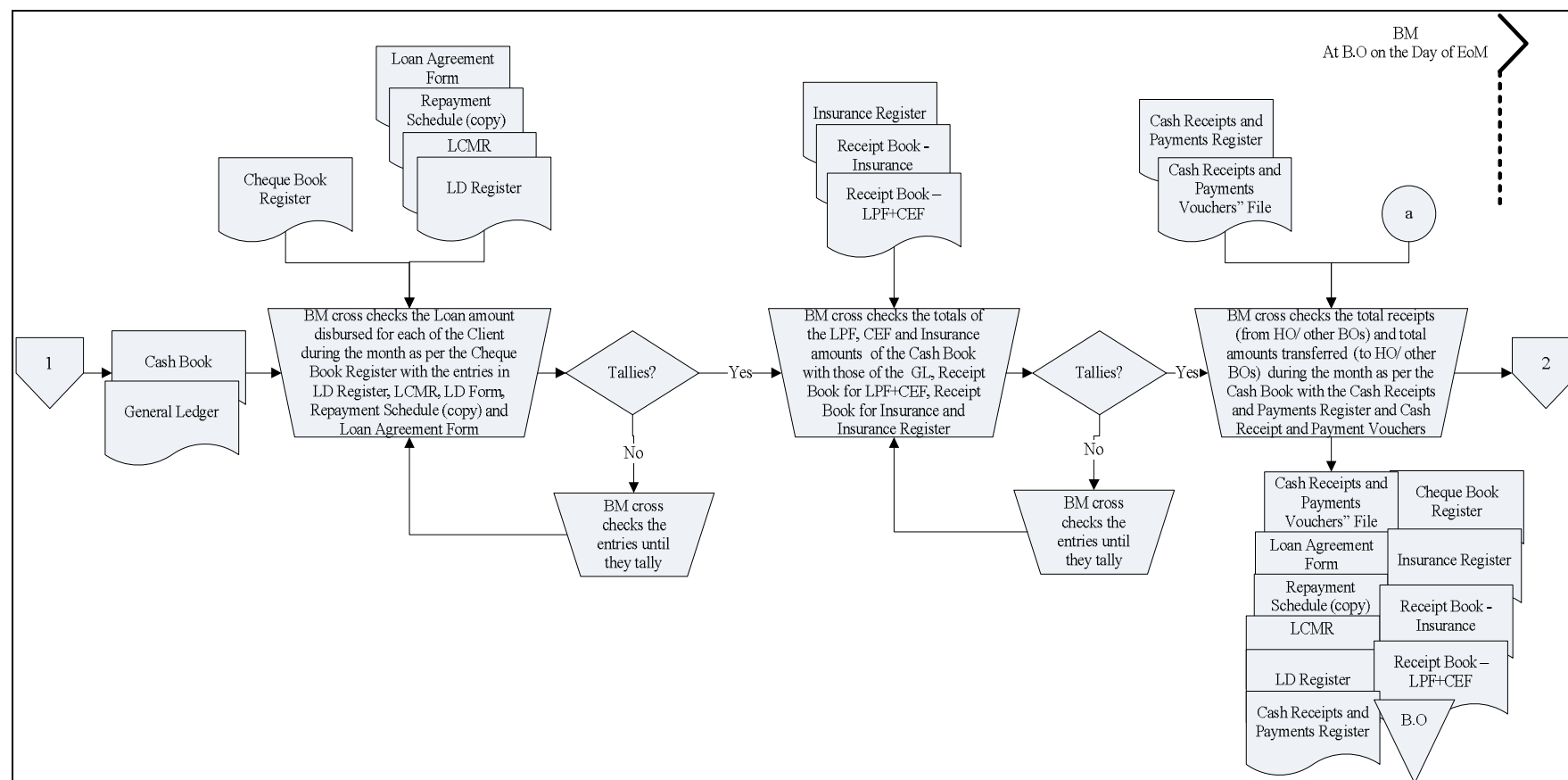
BFL enters a new phase with excitement. Significant experience and goodwill of its parent organisation (BWDA), together with increasing offers of money and ideas, are available to tackle the emerging challenges and to respond to exciting opportunities that lie ahead in the rapidly expanding Indian microfinance sector.

Annex: Example of Process Mapping Analysis by BWDA-BFL:

End of the Month (EoM) Reconciliation



<p>Description</p>	<ul style="list-style-type: none"> On the last working day of each of the month after completion of End of the Day (EoD) the BM starts the End of Month (EoM) process. BM totals the day wise collections made by all the FOs during the month in the Day Book and cross checks the same with the Cash Book entries 	<ul style="list-style-type: none"> Cross checks the total Loan recovery and Loan disbursement done during the month with General Ledger (GL) entries and those of the Cash Book entries. BM totals all the columns of the Cash Book entries made during the month and takes the first working day opening balance as the opening balance of EoM. In the column of the other expenses the BM writes the expenses under different heads to understand expenditure made under each head during the month.
<p>Risk</p>		
<p>Risk Mitigation</p>		<ul style="list-style-type: none"> Verification of the Loan Recovery and Loan Disbursement should have been done after completion of the totals of the Cash Book. GL should total various accounts on the date of EoM like Cash Book



<p>Description</p>	<ul style="list-style-type: none"> BM cross checks the Cheque Book Register details with the Loan Disbursement (LD) Register, Loan Committee Meeting Register (LCMR), LD Form, Repayment Schedule and Loan Agreement Form to know the there is no discrepancy in the Loans disbursed during the month. 	<ul style="list-style-type: none"> BM cross checks the total amount received through LPF, CEF and Insurance during the month as per the Cash Book with the Receipt Book of LPF+CEF, Receipt Book of Insurance, Insurance Register and GL totals for the month. BM cross checks the total Cash receipts from the HO and other branches and total Cash transferred to HO and other branches during the month as per the Cash Book with the Cash Receipt and Payment Register and Cash Receipt and Payments Vouchers.
<p>Risk</p>	<ul style="list-style-type: none"> If there is a discrepancy among the records and change in the loan amount, then the BM again cross the totals between the GL and Cash Book to tally the Loan Disbursed amount. 	

Risk Mitigation	<ul style="list-style-type: none">• This verification could have been done before the cross checking the Loan amount disbursed as per the GL with Cash Book	
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