



Making the Business Correspondent (BC) Model work for Self-Help Groups (SHGs)

A Case Study of Shri Kshetra Dharmasthala Rural
Development Project (SKDRDP), India

Anjaneyulu Ballem, Alphina Jos, Ghiyazuddin A. Mohammad,
and Ritika Srivastava

MicroSave

Table of Contents

Background and History of SKDRDP.....	7
SKDRDP's Work in Financial Inclusion.....	8
Detailed Analysis of SKDRDP's Savidha model.....	13
All Well and Good – But Does it Make Money?	20
Conclusion on SKDRDP Usage of the BC model.....	23
Opportunities and Recommendations for SKDRDP	24
Opportunities and Recommendations for Others.....	26
Annexure I: Evolution of SKDRDP's BC model	27
Annexure II: Staff Roles and Responsibilities.....	30
Annexure III: Field Based Monitoring System:	31
Annexure IV: Field Level Processes	32

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List of Abbreviations

BC	Business Correspondent
BCNM	Business Correspondent Network Manager
BSNL	Bharatiya Sanchar Nigam Limited
BM	Branch Manager
CBS	Core Banking Solutions
CO	Cash Officer
CAR	Capital Adequacy Ratio
FI	Financial Inclusion
FIC	Financial Inclusion Centre
FS	Field Supervisor
JLG	Joint Liability Group
MF	Microfinance
PO	Project Officer
POS	Point of Sale
RBI	Reserve Bank of India
SKDRDP	<i>Shri Kshetra Dharmasthala Rural Development Project</i>
SHG	Self-Help Group
SHPI	SHG Promoting Institution
SN	<i>Seva Nirathi</i> – Village level staff of SKDRDP
SP	<i>Seva Prathinidhi</i> – Community level volunteer
TSP	Technology Service Provider

Executive Summary

Background

The Reserve Bank India (RBI) is taking major initiatives towards financial inclusion to achieve the government's objective of equity and inclusive growth.¹ As a result, bank-led business correspondent models are slowly gaining some traction in India. Banks are reaching out to the unbanked and under-banked through a network of business correspondent (BC) agents either through outsourcing to institutional Business Correspondent Network Managers (BCNMs) or through managing their own BCs directly.²

Some institutions with good outreach and experience of working in unbanked areas are interested in collaborating with banks to act as BCNMs. Shri Kshetra Dharmasthala Rural Development Project (SKDRDP), a SHG promoting institution (SHPI), is one such institution that is working in the backward districts of Karnataka. It has collaborated with various banks to provide access to formal financial products and services for the poor and unbanked in its area of operation. SKDRDP found value in becoming a BCNM as it offered a variety of benefits including: additional revenue streams, efficient cash management systems, a broader range of financial products and funding assistance from banks.

Objective

MicroSave conducted this study as part of project funded by the Bill and Melinda Gates Foundation. The study aims to fulfil following broad objectives:

1. Study the existing SHG-BC model of SKDRDP
2. Provide relevant recommendations to SKDRDP to improve its operations
3. Identify factors that contributed to the success of the SHG-BC model
4. Guide other institutions and SHPIs who want enter into business correspondence space

The study focuses on the SKDRDP's SHG-BC model and its critical success factors. This study will help other institutions and SHPIs understand the advantages and challenges of adopting a BC model for financial inclusion, and to apply some of the lessons learned from SKDRDP's successful SHG BC model.

SHG BC Model

SKDRDP is located in Dharmasthala, a temple village in the state of Karnataka, famous for the religious shrine of Lord Manjunatha. Dharmadhikari, Dr. Veerendra Heggade, who heads the management of temple and its various community development activities, started SKDRDP in 1982 as a charitable trust to provide livelihood support programmes to the poor and marginalised. The organisation commenced microfinance operations in 1992 by forming self help groups to help women and marginalised farmers become financially self sustainable. Consequently the organisation partnered with banks to provide SHG-bank credit linkage facilities to SHG members.

In 2009, SKDRDP adopted the BC *Suvidha* model under which the organisation acts as a business correspondent network manager (BCNM) for banks in order to provide access to formal financial services to the poor and unbanked. Presently, the organisation is implementing the programme in 16 districts of Karnataka and plans to implement the programme in the entire state by 2015.

As a BCNM, SKDRDP offers banking products (in this case savings accounts and credit) to SHGs, on behalf of partner banks, through a network of field sub-agents. The organisation also undertakes marketing and promotional activities to create awareness about the initiative amongst the general public. The cash officer, or BC agent, conducts field level transactions for SHGs using a hand held POS machine supplied by the technology service provider (TSP). TSP also provides the back end technology that links field level transactions with the bank. The technology records, authenticates and transfers field transaction data to the bank through a link server. SKDRDP is responsible for managing liquidity by maintaining adequate physical cash and e-float.

The model is beneficial to all the stakeholders in the value chain. SKDRDP offers savings and credit products to its customers through the BC channel and gets additional income for the operations. Banks are able to

¹See for example MicroSave [Policy Brief 1: "Electronic and Mobile Banking in India - Gearing-up for Growth"](#)

²See for example MicroSave [India Focus note 101: "The Case for a Bank Managed Agent Network in the Business Correspondent Model"](#)

achieve their financial inclusion mandate and at the same time earn revenues from the BC operations because of higher account activity. Customers get access to a secure banking system and formal financial products without the need to go to a bank branch.

Recommendations

Though SKDRDP has shown considerable success in its operations, it may want to consider the following actions to address operational challenges and enable rapid deployment:

- Expand the product portfolio to include individual savings products such as recurring deposits, fixed deposits, pension products etc.
- Use the BC channel to integrate other services such as insurance payments, agriculture finance, government benefit payments, social security payments, money transfers etc.
- Explore options of using mobile technology platform because of the ubiquitous presence of mobile phones.
- Negotiate with bank partners for timely payment of commissions.
- Conduct regular review meetings with bank and technology service provider to discuss any problems/issues and ensure smooth flow of operations.
- Train or orient the branch managers on BC model to help them understand the model, its relevance and importance.
- Regular follow up with banks and technology service provider for faster activation of accounts and loan disbursement.

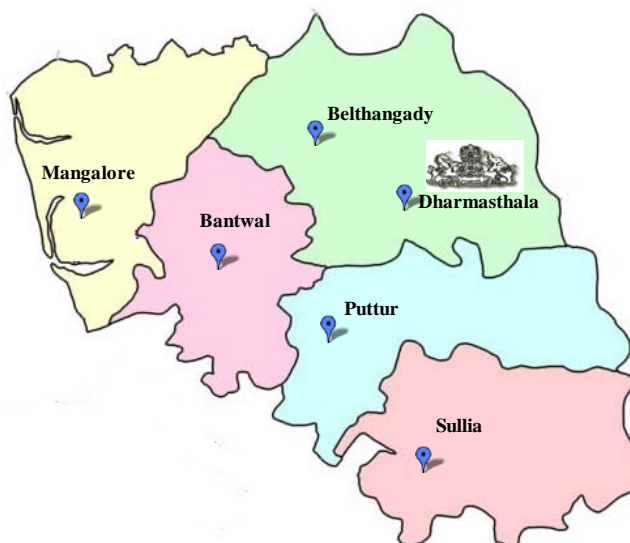
SHPIs or other institutions who want emulate SKDRDP's success factors (bearing in mind their geography and culture) can consider the following set of success factors:

- Strong leadership with a long term vision to enable equity and inclusive growth.
- Compelling product mix of both savings and credit to increase account activity levels.
- Seek explicit support and cooperation from the bank on various operational aspects such as promotion, marketing, faster account enrolments, field support etc.
- Negotiate for immediate payment of commissions due to them on various aspects such as formation of SHGs, monitoring of SHGs, deposits, withdrawals, balance enquiry and other transactions.
- Field focus: all staff from the leadership to field staff, should have a diligent field focus to understand the needs of the clients and obtain their feedback to improve the organisation.
- Staff focus: recruit local youth as it would provide them employment and also create greater buy-in among the local population.
- Provide relevant training to the staff so that they can educate the customers about the products and their benefits.

Background and History of SKDRDP

Nestled in peaceful and idyllic surroundings of the Western Ghats in southern India, Dharmasthala is a temple village located in Bethangady Taluka (block)³ in Dakshina Kannada district of Karnataka.⁴ Dharmasthala is famous for the religious shrine of Lord Manjunatha, and is a bastion of religious tolerance, as the Jain Theerthankara is worshipped with the same reverence as the native Daivas and Lord Manjunatha (Lord Shiva). Thousands of pilgrims regularly throng the temple complex to seek solace and blessings of the Lord. As a charitable cause, the temple provides free food and boarding to the pilgrims who visit the temple complex.

Figure 1 Map of Dakshina Kannada district, Karnataka



“No one who does good work will ever come to a bad end, either here or in the world to come.” – The Bhagavad Gita

The 21st Dharmadhikari, Dr. Veerendra Heggade, heads the management of temple and its various community development activities and personifies the quote mentioned above from the Bhagavad Gita.⁵ The Heggade family has been the trustees of the holy shrine since the 16th century.

“One should strongly resent miserliness and indulge in charity because one can acquire the never-ending wealth of immortality by doing so.” - The Rig Veda

For generations, the Dharmadhikaris have devoted their lives to charitable work in the form of improvement in economic well-being, health, sanitation, education, and standard of living of the rural poor, using pilgrims’ donations. Dr. Veerendra Heggade gave the charity and development work a new direction by promoting several trusts/institutions focussing exclusively on education, health, entrepreneurship and rural development.

One such trust promoted by Dr.Heggade is the Shri Kshetra Dharmasthala Rural Development Project (SKDRDP), registered as a charitable trust in the year 1991.⁶ SKDRDP promotes a network of Self Help Groups (SHGs) under its *Suvidha* programme and works towards the development of rural communities through financial and non-financial interventions. As part of its financial inclusion efforts, SKDRDP promotes the habit of savings among SHG members and provides micro credit through a group lending model. SKDRDP also offers various schemes such as pensions, health insurance, accident insurance, and life insurance. In addition to financial inclusion, SKDRDP conducts programmes for housing construction, educational facilities, alcohol addiction treatment, and efficient and sustainable agriculture practices.

³Blocks are administrative entities that are further sub-sets of “districts” – the equivalent of a US-type county – and are typically reserved for high-need rural areas.

⁴<http://www.dk.nic.in/> - The figure depicts the map of Dakshina Kannada District in Karnataka. The towns marked with blue pins (except Dharmasthala) are the block headquarters of the district).

⁵<http://www.shridharmasthala.org/>

⁶<http://www.skdrdpindia.org/>

SKDRDP’s Work in Financial Inclusion

SKDRDP’s Achievements in Financial Inclusion

As of September 2012, SKDRDP has promoted 215,350 SHGs. Over the years, SKDRDP has focused on the BC *Suvidha* model. Presently, the organisation is implementing the programme in 16 districts of Karnataka and plans to implement the programme in the entire state by 2015. The table below gives the operational details of SKDRDP as of September, 2012.

Table 1 SKDRDP operational details an of September, 2012

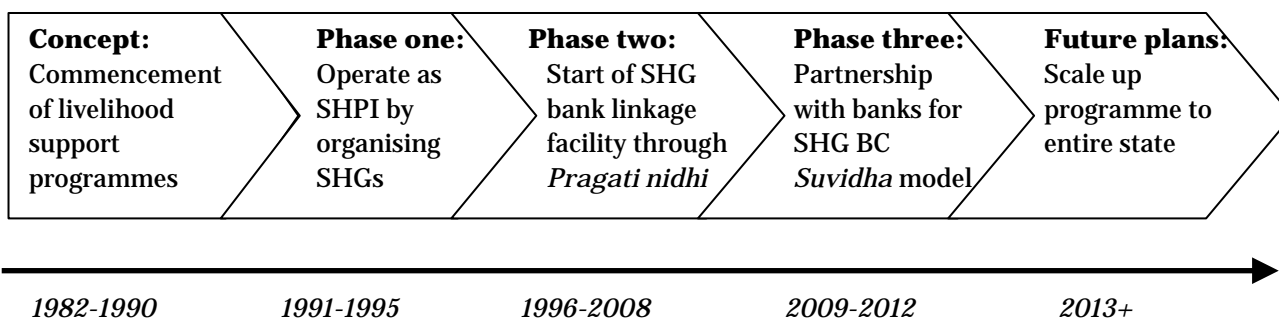
Particulars	Total	BC <i>Suvidha</i>
No. of SHGs	215,350	129,881
Savings (Rs. in millions)	5,913	1,053
Loans Disbursed (Rs. in millions)	10,616	1,905
Loan Outstanding (Rs. in millions)	22,420	5,851

Figure 2 SKDRDP agent collects savings from SHG members



The Evolution of SKDRDP’s Work in Financial Inclusion

SKDRDP commenced its involvement in financial inclusion more than 30 years ago, and it has progressed through several phases in that time. Please see [Annexure I](#) for a more detailed discussion of this evolution, which is summarised in the diagram below:



In its endeavour to provide effective and impactful financial interventions, SKDRDP has adopted a distinctive Self Help Group - Business Correspondent⁷ (SHG-BC) model to provide financial services to the rural poor to maximize efficiency and scale. The model enables convenient doorstep banking to the unbanked and financially excluded sector using the business correspondent model promoted by the Reserve Bank of India.

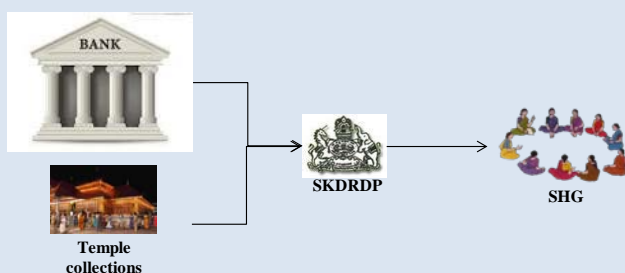
SKDRDP started as a charitable trust in 1982 with limited operations in the villages of Bethangady Taluka. The organisation mainly focussed on poor and excluded and provided livelihood development and training programmes. In 1992, the project adopted SHG based approach to help the poor become financially self sustainable. The organisation targeted women to accumulate savings and lend internally among the members of the group. In 1996, SKDRDP partnered with Syndicate Bank for SHG-bank credit linkage programme. Syndicate Bank provided loans to members of SHGs promoted by SKDRDP to help promote their livelihoods or develop infrastructure.

In 2009, SKDRDP adopted a SHG BC model under the name “*BC Suvidha*”, to offer additional benefits to its customers and also to leverage the benefits of the business correspondent model. Initially, the organisation piloted the model in three districts of Karnataka. The BC model is less capital intensive and enables faster outreach.

The Suvidha⁸ Model

After nearly two decades of operation in Bethangady Taluka, in 2001 SKDRDP decided to expand its operations to other areas of Karnataka. As part of the plan, SKDRDP decided to lend its own funds (primarily from temple donations) and facilitate SHG-bank credit linkage to SHGs through *Pragatinidhi*,⁹ its flagship microfinance programme. The main objective of *Pragatinidhi* is to provide adequate and accessible credit funds with reasonable tenures and repayment instalments, and also to facilitate members' weekly savings through formal savings channels. SHG groups can avail credit for agriculture, infrastructure development and non-farm sector development activities.

Figure 3 SKDRDP Suvidha Model



The income from micro credit operations helps the trust remain sustainable and also aids in financing charitable activities that the trust undertakes. SKDRDP originally used temple donations and borrowed funds from banks to offer credit to the SHGs under this model. However, as the programme expanded into other geographies and the loan portfolio increased, SKDRDP decided to shift to using a BC *Suvidha* Model.

⁷Refer to the following links for further understanding of the Business Correspondent Model

Reserve Bank of India's guidelines on [Business Correspondent model](#)

MicroSave India Focus Note 18 "[MFIs As Business Correspondents: To Be Or Not To Be?](#)"

MicroSave India Focus Note 24 "[Making Business Correspondence Work In India](#)"

MicroSave India Focus Note 32 "[Making Business Correspondence Work - Crossing The Second 'Break-Even'](#)"

MicroSave India Focus Note 37 "[Listening To Customers Of M-Banking In India](#)"

MicroSave India Focus Note 38 "[Listening To Agents Of M-Banking In India](#)"

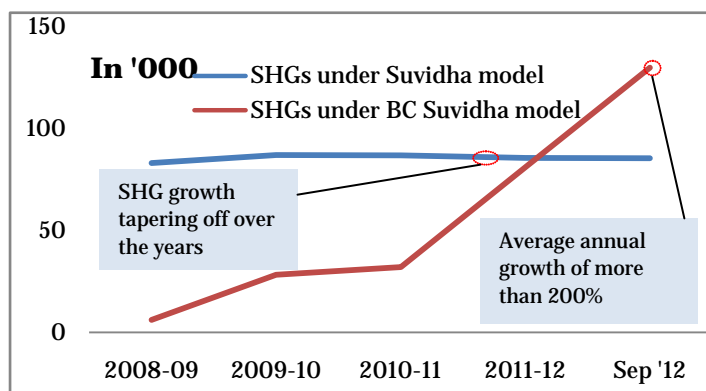
⁸*Suvidha* connotes convenience or ease in Hindi. In this context, the word is very aptly put as the model enables the customers to access banking facilities in a convenient and hassle free manner.

⁹*Pragatinidhi* means fund for progress. *Pragatinidhi* is a JLG loan with convenient tenure, easy accessibility and easy weekly repayment installments. The loan is provided either through the SHG bank credit linkage or through SKDRDP's own funds.

SKDRDP's SHG BC "Suvidha" Model

For a variety of reasons detailed below, SKDRDP designed a SHG BC model under the name "BC *Suvidha*". In January 2009, SKDRDP piloted the model in three districts of Karnataka i.e., Dharwad, Haveri and Gadag. The graph below presents the expansion of the new initiative in the last four years.

Figure 4 Growth of SKDRDP SHGs ('000)



Over the years, SKDRDP has scaled up the model and at present (2012), it is implementing the model in 16 districts of Karnataka. The shift in focus is reflected in the SHG formation results. While the growth in formation of SHGs under the original *Suvidha* model has tapered off over the years, SHGs under BC *Suvidha* grew at an annual average rate of more than 200%.

Reasons for Shifting to the BC *Suvidha* Model

There were several reasons for switching to the *Suvidha* model:

1. **Difficulty in raising capital and capital adequacy requirements**—SKDRDP's legal status as a charitable trust restricts its ability to raise capital to expand its operations. Prior to the shift, the main source of capital infusion was in the form of temple donations (channelled by Dr. Heggade).

"As the loan portfolio grew, we had to infuse capital to maintain CAR. But apart from Dr. Heggade there was no other source of capital for us" – Dr. L.H. Manjunath, Executive Director, SKDRDP

Also as the credit portfolio increases, SKDRDP must infuse additional capital to maintain an adequate capital adequacy ratio¹⁰ (CAR) as per the prudential norms of the RBI. SKDRDP found it difficult to maintain the minimum CAR because of difficulties in raising adequate capital. According to the Mix Market report¹¹ SKDRDP's CAR stands at negative 20.21% as of 31 March, 2012. Also SKDRDP came to believe that banks, with larger balance sheets and better risk management practices, are in a better position to assume portfolio risk. To overcome this SKDRDP adopted the bank credit linkage model under the BC programme. In this model SKDRDP promotes the SHGs, links the SHGs with the bank, and facilitates loan processing and repayments. Banks lend directly to the SHGs promoted by SKDRDP and pay a commission to SKDRDP for promoting and managing the SHGs.

2. **Concerns with collecting savings**— It is very important for SKDRDP to offer a full suite of financially inclusive solutions, especially savings, and not just credit. However, as microfinance operations grew, SKDRDP ran into a regulatory grey area with the Reserve Bank of India (RBI) for collecting savings from the public. The RBI raised concerns, stating that being a non-corporate entity, (i.e. a charitable trust), SKDRDP should not collect savings from the public. Regulations mandate that deposit collection entities must maintain certain minimum capital levels, cash reserves with the central bank, invest in certain government securities as part of treasury management, etc.

¹⁰ Capital Adequacy Ratio (CAR) = Total Capital/Risk Weighted Assets. CAR measures the capability of an institution to meet its future obligations

¹¹<http://www.mixmarket.org/mfi/skdrdp/report>

Bank at Your Doorstep!

Tavvaga is a remote village in Gokak block of Belgaum district with 62 SHGs and with the nearest bank branch located 20 kilometres away in Gokak town. SHG members used to visit the bank branch office to open an account, deposit savings, prepare loan documentation, receive loan funds and to make loan repayments. As the bank is far away and the village is not well connected with public transport, SHG members used to travel to bank in auto rickshaw. During loan documentation and loan disbursement, SHG members used to hire a jeep, costing Rs.800 to Rs.1000, as all the members were expected to visit the bank. Ms. Dundava, an SHG leader, said that it was a burden for members and especially SHG leaders to visit the bank branch on a weekly basis to deposit savings and loan repayments. Many of the members were reluctant to assume leadership responsibility in groups because they had to lose a day's work to visit the bank branches and conduct transactions. In addition to this, they always worried about the risk of theft as they had to travel from village to bank with cash.



After the BC-model began in 2011, the situation has completely changed, as members can open their bank accounts and conduct bank transactions within the village. SKDRDP's Cash Officer visits the village once a week to collect savings, loan repayments and withdrawal of group savings' corpus for internal lending within the village.

Ms. Pankaja, another SHG group leader in the village, says that she saves a lot of time as the facility is available within the village. *"Hamara paisa aur time dono bach jaate ab!"* (We save both time and money now). She also says it is safe and secure as transactions are authenticated with group leaders' thumb impressions. She is happy as she gets a receipt from the POS machine duly signed by the Cash Officer. The SHGs also receive a monthly balance sheet without the need to visit the bank branch. As per Ms. Pankaja's estimate, each SHG saves around Rs.1,000 per month including travel, food and opportunity cost.

Table 2 Costly bank visits

Loan processing and disbursement cost		Monthly loan repayment cost	
No. visits to the bank	3	Number of visits in a month	4
Travel cost (Amount Rs.)	40	Travel cost (Amount Rs.)	40
Labour cost* (Amount Rs.)	100	Labour cost (Amount Rs.)*	100
No. members in SHG	10	No. members who visit	2
Total travel cost (Amount Rs.)	1,200	Total travel cost	320
Labour cost (Amount Rs.)	3,000	Total labour cost	800
Total cost (Amount Rs.)	4,200	Total cost (Amount Rs.)	1,120

* Members lose a day's wage when they visit the bank.

3. **Focusing on core strengths allows:**

- a. **Rapid scale up** – The model provides an opportunity to scale up rapidly and create a meaningful impact in rural communities. SKDRDP specialises in the promotion of SHGs and maintaining grassroots connections. The bank specialises in financing, and the technology service provider (TSP) specialises in providing appropriate technology for conducting branchless banking operations. As each of the stakeholders focus on their respective areas of specialisation, the implementation of the programme becomes streamlined, and has the opportunity to gather critical mass within a short duration of time, at a lower cost.
- b. **Enhanced socio economic development of customers**– Banks have a higher lending capacity and can provide credit at competitive interest rates. They can also help keep savings safer and at the same time more available than SKDRDP, or even groups in many ways. SKDRDP lends its reputation and distribution network, while banks focus on lending and savings. SKDRDP can therefore focus on other socio-economic development activities to achieve its mission of “*creating rural infrastructure through a participatory village community to improve the living habitat.*”

4. **Regular Source of Income** – SKDRDP can now earn a regular source of income from its bank partners for promoting SHGs, processing loans, and enabling savings deposit and withdrawal transactions. This is a good alternative source of income especially as SKDRDP plans to go “capital light” and also as the whole sector is reeling from fundraising issues due to the microfinance crisis in Andhra Pradesh. The income would help SKDRDP become viable and sustainable in the longer term and also to channel the income into other community development activities.

The Banker’s Dream Troika: Lower Costs/Risks, Higher Revenues, and Happy Regulators

1. **More customers without a drain on branch resources and costs:** The BC channel can open up a significantly untapped market. Formal financial service providers, especially banks have avoided the rural markets because of non-viability of setting up brick and mortar branches, and also due to lack of proper understanding of the markets. The BC channel can help the banks penetrate rural markets through its network of agents and staff (and use of real-time technology reporting). This partnership with a grassroots organisation provides the bank with crucial field insights helping the bank to develop products and processes, such as the cash van, that suit the requirement of customers. SKDRDP offers banks pre-existing customers, experience in various aspects such as monitoring, supervision, internal audit, and maintenance of records and has established systems and procedures to help banks venture into rural markets with confidence and greater resolve.

“It takes from two to two and a half million rupees to open a branch in rural/semi urban locations. With agency banking we do not incur any capital costs.”- *Chief Manager, Financial Inclusion Centre of the bank.*

2. **Higher income:** The SHGs provide compulsory weekly savings to the bank. As these savings are long term and bundled together into larger sums (versus where other BCs typically deal with much smaller sums), they provide a good source of float income to the bank. Banks also earn income from the loans that they extend to the SHGs (and do not depend only on float income from savings). With a good SHG promoting agency, banks can build a solid portfolio of SHG loans through the BC model and make it a viable and profitable proposition.
3. **Priority sector obligations:** The RBI mandates that most banks must lend 40% of the net bank credit to priority sectors. It also mandates that a certain number of active savings accounts exist and are serviced in every under-served rural area. Association with SHGs help the banks meet these mandates set by RBI.

Detailed Analysis of SKDRDP's Suvidha Model

Delays in conducting transactions and long distances to reach bank branches are only some of the challenges that rural customers face in using banking services.¹² Customers often have to spend significant time, energy and cost to visit the bank branch and wait for account opening, for savings deposits and withdrawals, and finally loan documentation, disbursement, and repayments. To provide cost effective, convenient and on-time services to SHG members, SKDRDP started working as a BC for the State Bank of India (SBI, India's largest and most respected public sector bank) that offers credit and savings services to the SHGs. Instead of building an expensive branch network with full-time bank staff, SKDRDP offers financial services to SHGs through its staff and community level volunteers.

As a BC, SKDRDP promotes SHGs, helps SHGs to open accounts with the partner bank, processes loan documents, disburses loan cash (and savings withdrawals), collects repayments (and deposits), and monitors SHG performance. The operating model is given in the figure 6 below and [Annexure IV](#) describes the process for account enrolment, loan processing, loan disbursement, and loan repayment through the BC model in more detail as well.

SKDRDP acts as an institutional agent to the bank and offers banking products (in this case savings accounts and credit) to the SHGs through a network of field sub-agents. The Cash Officer, as sub agent, conducts field level transactions for SHGs using a hand held POS machine supplied by the technology service provider (TSP). The TSP also provides the back end technology that links field level transactions to the bank. The technology records, authenticates and transfers field transaction data to the bank through a link server. SKDRDP, as a principal agent to the bank, is responsible for managing liquidity. It maintains adequate cash to honour withdrawal transactions and e-float in settlement account to honour deposit transactions. The following sections elucidate the model in detail.

Figure 5 Women speaking in a FGD session in rural Karnataka



“Gaaonwaale paisa bohot gamaaliye saab baahar ke agenton ku deke. Ab hum log hamare paise yahin centre me jamaa karte. Byaaz ka byaaz aur paise bi hifazaat se rehte saab.”

(Many villagers lost their money by saving with unscrupulous agents. Now we save money at the cash collection centre in the village. Our money is safe and we also get interest)” - Noorjahan, SHG member

¹² Refer to *MicroSave* research on [Cost and Willingness to Pay in India](#)

Figure 6 SKDRDP BC Suvidha model

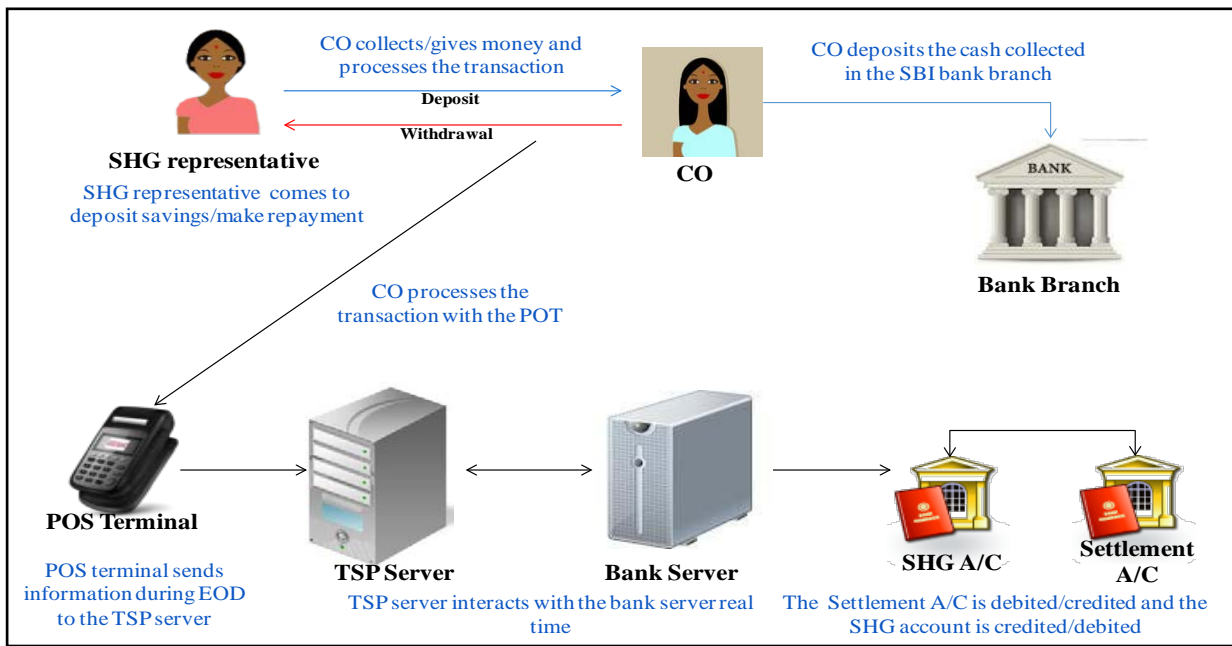


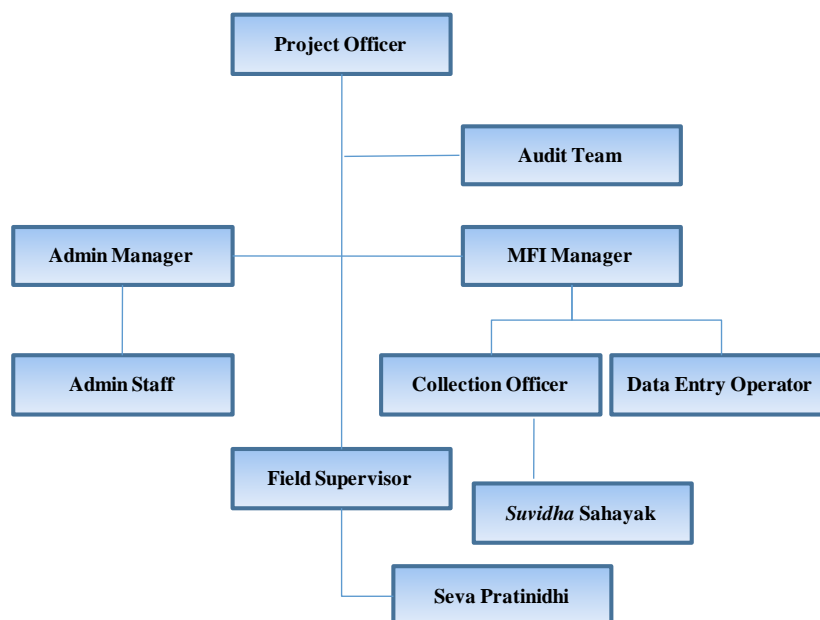
Figure 7 Relationship between the stakeholders

SKDRDP (BCNM)	Bank	TSP
<ul style="list-style-type: none"> •Forms SHGs •Opens SHG accounts on behalf of the bank •Processes and recommends loan application forms of SHG members •Cash management - deposit and withdrawal funds. Loan disbursement and repayment on behalf of the bank •Monitors loan repayments •Trains field staff on bank products, processes and cash handling • Reconciliation of cash collection reports with bank statement 	<ul style="list-style-type: none"> •Opens savings bank accounts for SHGs •Sanctions loans to SHGs •Provides deposit and withdrawal facility to customers •Provides liquidity rebalancing facility to the BC •Pays service fee and commissions to both BC and to TSP 	<ul style="list-style-type: none"> •Provides enrolment data to the bank •Technology hardware support (Point of Sale devices and smartcards) •Provides field level transaction data to the bank •Backend support: hosting of savings account activity for both SHGs and individual members and transaction processing •MIS support: sharing of MIS data with bank and SKDRDP in pre-defined formats and timelines •Trains the BC/BC agents on POS handling

1. Human Resources: the BC Operations Team, Recruitment, and Training

SKDRDP has implemented decentralised field operations, with offices located in key local blocks. Figure 8 shows the organogram of the BC *Suvidha* model. SKDRDP uses a mix of its own staff and engaged agents to deliver BC operations. SKDRDP engages individuals called *Seva Sahayaks* and *Seva Pratinidhis* as sub-agents and pays them commissions based on field operation levels. On the other hand, the Field Supervisors and above, who play supervisory and managerial roles, are formal staff of SKDRDP.

Figure 8 Model Organogram



Operations team: The Project Officer drives the BC initiative at the block level. S/he coordinates with the head office for liquidity related issues. S/he monitors and evaluates field level BC operations. The MFI Manager monitors the transactions and manages liquidity. S/he supervises a team of Cash Officers who conduct field operations. The Admin Manager is responsible for branch operations and salary payments. At the field level, the Field Supervisor manages a team of five to six *Seva Pratinidhis*. S/he oversees capacity building activities and is responsible for credit evaluation and processing. As community volunteers, *Seva Pratinidhi* actively engage with the members of the community. He/she is involved in the formation and smooth functioning of SHGs. The Field Supervisor and *Seva Pratinidhi* play a key role in delinquency management as well, ensuring prompt repayment and follow up with delinquent SHGs for loan recovery. Roles and responsibilities for each level of the hierarchy are given in [Annexure II](#).

Recruitment: SKDRDP recruits local SHG members to serve as volunteer *Seva Pratinidhi* and also recruits local community members for field staff positions, as they have a better understanding about the culture and social fabric of the geography. This helps in targeted, effective and impactful financial and non-financial intervention.

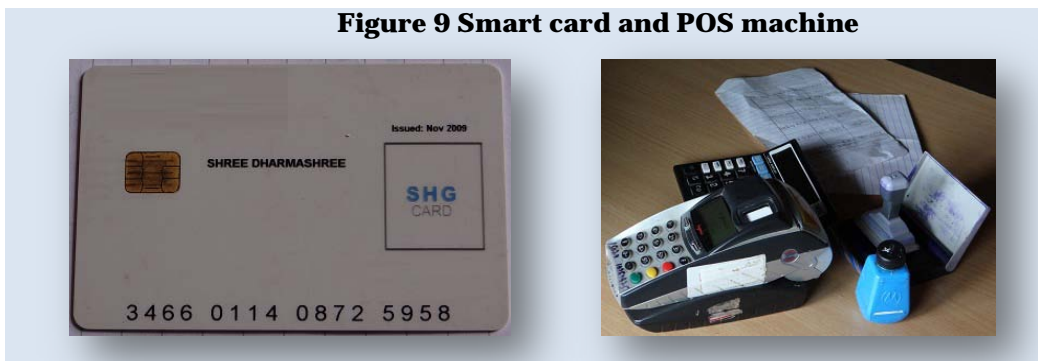
Training: SKDRDP provides training to *Seva Pratinidhis* on group formation, loan processing, loan recovery, book keeping and monitoring of the SHGs at the local SKDRDP/RUDSETI¹³ training centre. Cash Officers are trained on handling the POS devices, cash collection and payments, recording transactions and verification of fake notes at the project office. The TSP's local staff members also visit the local project offices to train the Cash Officers on operating the POS machine, uploading transaction data and other technical issues.

¹³Rural Development & Self Employment Training Institute (RUDSETI) is a joint initiative by Sri Dharmasthala Manjunatheshwara Educational Trust, Syndicate Bank and Canara Bank to provide training to unemployed youth. Refer to the website <http://www.rudsetitraining.org/>

2. Technology

Robust technology helps in connecting customers to the formal banking system efficiently and in a less costly manner and allows for rapid scale-up of operations. SKDRDP's TSP provides technology architecture that ensures secure front end transactions and robust backend MIS systems. On the front end, the TSP provides smart cards to the customers which can be with handheld point of sale (POS) devices (much like any of the credit card readers found in any major retail store). The smart cards are embedded with a chip that stores KYC and biometric information of the customer. The POS machine, through an integrated card reader, authenticates the transaction when the card is swiped by identifying the customer through his/her finger prints and account details and generates a receipt as a proof of transaction for the customer. In the backend, the transactions are routed to a switch which integrates the transaction data into the bank's core banking system (CBS).

Figure 9 Smart card and POS machine



3. Marketing/Communications

Many successful branchless banking deployments across the world attribute their success to effective marketing and communication strategies. Marketing and communications helps customers gain familiarity, leading to higher uptake. In SKDRDP's case, outreach to new customers is conducted through Field Supervisors (FS) who visit new villages and explain the SHG-BC initiative and its benefits to prospective members. The FS identifies a *Seva Prathinidhi* (active SHG member) who, as community level volunteer, works towards group promotion in the village. In terms of marketing collateral, there is a small placard with the logo of the bank and SKDRDP placed at the cash collection centres. The cash movement vehicle also prominently displays the logo of the bank. All these initiatives, though limited, help create positive brand recall among prospective customers. As many BC *Suvidha* customers are already existing customers of SKDRDP, limited marketing initiatives seem to suffice. Finally, the whole initiative has higher acceptability because of its association with "*Dharmasthala*" and "*Lord Manjunatha*". The local populace considers any association with the deity to be pious and readily comes forward to become members of the initiative.

Figure 10 A Seva Pratinidhi verifying an application form for account opening



4. Monitoring

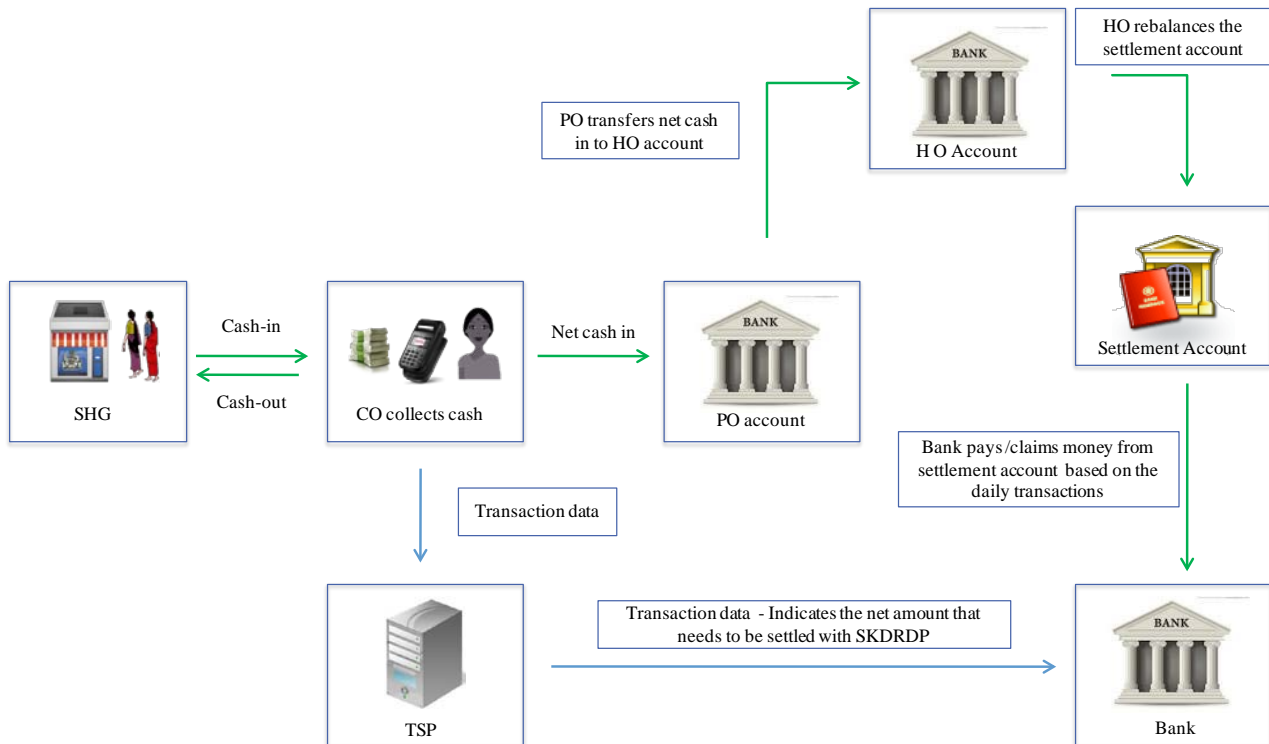
The **monitoring** and supervision systems play a critical role in any digital financial services deployment, especially in the context of rapid geographical expansion. Effective monitoring systems check fraud and ensure operational uniformity and regulatory compliance. SKDRDP’s BC-*Suvidha* model has an effective monitoring system that integrates seamlessly with regular SHG monitoring systems. SKDRDP has a two-pronged approach to monitor its BC model deployment: a MIS monitoring system and a field based monitoring system. The MIS system captures field level transaction data and highlights any discrepancy in reconciliation. The field based monitoring is conducted by various levels of SKDRDP staff at regular and pre-defined (and some *ad hoc*) intervals to ensure compliance with defined processes and reporting standards. The audit team conducts intermediate and yearly audit of the SHGs to ensure proper maintenance of SHG books of records. [Annexure III](#) provides more details on SKDRDP’s field based monitoring system.



5. Liquidity and Cash Management

SKDRDP maintains float in the form of a settlement account to honour field level transactions. The liquidity rebalancing is done on a daily basis through this settlement account. The figure 12 below depicts the liquidity management process of the SKDRDP SHG-BC model. SHGs visit cash collection centres once a week to deposit their savings and make loan repayments. A cash van transports Cash Officers to cash collection centres to honour SHG withdrawal transactions (e.g. internal loan funds withdrawal, savings withdrawals), disbursements of loans (through cheque), and deposits (savings deposits and loan repayments – see box below on the cash van). The net amount is deposited in the SKDRDP project office account at the nearest bank branch. The TSP provides SKDRDP and the partner bank with daily transaction data. Based on this data, the bank calculates balances of SKDRDP’s settlement account and SKDRDP replenishes the settlement account with the funds that it receives from daily collections.

Figure 12 Liquidity Management



* Green arrows represent the flow of cash and the blue arrows represent the flow of information.

The Cash Van

As part of a corporate social responsibility (CSR) initiative, the bank donated a vehicle to SKDRDP to help with the BC *Suvidha* model. SKDRDP uses the vehicle to provide transport to the Cash Officers who conduct cash transactions at the cash collection centers located in the field. The vehicle drops Cash Officers to the respective cash collection centre and picks them up later in the day to deposit cash in the bank branch. Each vehicle can accommodate eight Cash Officers. Cash Officers, especially women, like this method as it provides pick up and drop off services without the inconvenience of travelling in public transportation. SKDRDP saves significant travelling cost through this initiative and ensures their Cash Officers reach the bank branch office before the branch closes at the end of the day. The vehicle also provides safe and secure means for cash movement. The bank is able to offer banking services to the remote villages where public transportation is not available and meets its CSR.



There is also a knock-on effect of enhanced marketing and trust in a system with a formal vehicle. One customer happily notes, *“We hardly see any cars in our village. We feel very happy when we see SKDRDP officers come all the way to the village in a car to provide us banking services”*.

Stakeholder Successes and Issues

The section below enumerates what is working well between the stake holders.

Field level coordination between the stakeholders-Projects with multi-stakeholder partnerships must have continuous and strong coordination and communication among the stakeholders to foster a customer centric and market driven ecosystem. In SKDRDP’s case, the growth in volume and value of transactions over the years are testimony to the coordination between the stakeholders. SKDRDP allots machines to the Cash Officers to conduct daily transactions and to deposit net cash in the bank branch. Bank officials extend their cooperation by allowing the Cash Officers to deposit cash directly without standing in long queues. The TSP for its part has a robust server and switch system that ensures smooth integration of data into the bank’s main server without technical glitches, provides daily reports, and services the BC for technical issues and training needs.

The bank has set up an exclusive Financial Inclusion Centre (FIC) in each of SKDRDP’s districts, which processes savings account application forms for financial inclusion (FI) deployments in the district. The bank FIC staff verifies the enrolment information sent by the TSP with the physical forms and activates the accounts. Since the FIC focuses exclusively on FI activities, the turnaround time for account verification and activation is much quicker than in other areas or for other banks. The bank branch officials are relieved of the responsibility to verify so many FI accounts and can focus on regular banking activity. The TSP on the other hand sends a daily transaction report to both the BC (SKDRDP) and the bank (SBI) to validate and reconcile transactions for the day. More critically, the TSP appointed field staff in each district to address technical issues. SKDRDP’s reputation as an experienced organisation working for the development of the

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poor, its demonstrated business potential and its leadership's proactive involvement all played a key role in gaining support from bank and the TSP.

Better access to secure banking system for customers—The new model enables the SHG members to save with the bank and at the same time curtails the need to go to the bank. SHGs can save and repay the loan at collection centres in their neighbourhood. Also, customers trust the bank and SKDRDP highly, avoiding unscrupulous agents who have cheated them in the past.

“Banking” on the Success of the SKDRDP BC Model

In January 2011, SKDRDP entered into a tripartite agreement with a bank and a TSP to extend the BC *Suvidha* model in Belgaum district of Karnataka. It initiated the programme within the operational area of five branches of the bank. Initially bank branch managers were reluctant to support SKDRDP in the implementation of the model as they thought it would be an additional burden to the already over stretched bank staff.



Both SKDRDP local project office staff and the Chief Manager of the bank's regional office struggled to persuade the bank branch managers to support the initiative. The initial months were very discouraging with limited progress of the initiative. Bank managers were very reluctant to take up SHG credit linkage proposals. Over time however, bank managers saw the progress in SHG accounts and savings mobilisation and became convinced about the model. They started supporting the SKDRDP staff in opening accounts, cash deposit, reconciliation of transactions and processing loan documents. Once operations streamlined and the managers gained confidence in the model they started faster processing and disbursement of loans.

One of the branch managers' says, “Initially they [SKDRDP] were after us for loan disbursement, but now we are after them for loan disbursement.” The Chief Manager says, “Because of the BC *Suvidha* model, branch managers achieved all their major targets viz. opening of savings accounts, mobilisation of deposits, loan disbursements and almost 100% loan recovery”. A happy branch manager says, “I got an appreciation letter from the HO for successfully achieving the business target much before the designated time.”

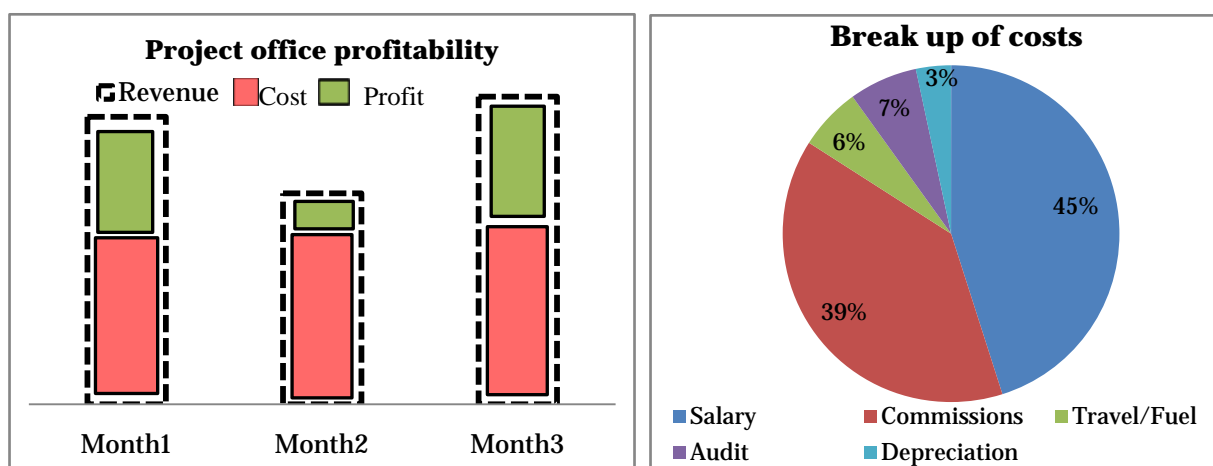
As of September 2012, one of the branches opened around 3,400 SHG accounts, has SHG loans outstanding of Rs.260 million and has savings deposits of Rs.90 million, approximately 65% of total loans outstanding and savings deposits of the branch. The Chief Manager is confident that the bank will emulate the success of BC *Suvidha* model and implement the initiative in other parts of the state.

All Well and Good – But Does it Make Money?

All the stake holders in a branchless banking deployment have to be adequately remunerated to ensure continuity of the deployment and to meet true objectives of financial inclusion. Many BC deployments in India have met with limited success due to a lack of adequate profits to sustain the operations. According to a study conducted by *MicroSave* of 11 leading BCNMs in India, profit margins remain one of the biggest constraints limiting the BC business. BC agents who offer standard no frills account on behalf of banks, make little profit, rendering the business unviable.^{14,15}

However, SKDRDP’s SHG BC model demonstrates that there can be a strong business case for entities that offer value added services through the BC channel. The graph below shows SKDRDP’s project office level profitability and costs for three months from June to August, 2012.

Figure 13: Project office level profitability and break out of costs



- Profitability**–The graph shows the breakup of revenue, expenses and profit for one example project. In month1 and month3, the profit margins are close to 40%, but due to a lower income from fewer account opening and disbursements of smart cards, the profit margins reduce to 3% in month2. Similarly, the return on investment (RoI), which takes into account investment in liquidity and capital assets, stands at 15-16% for month 1 and month 3 and reduces to 3% in month2 (due to lower income from account opening and disbursement of smart cards). One time account opening and SHG loan processing fees, coupled with regular transaction fee income, contribute to the profit and in turn viability of the model.
- Breakup of operating costs**– Salary to staff (43%) and commissions to *Seva Pratinidhi* (who form SHGs and process loan applications) (31%) comprise the majority of operating costs. SKDRDP must also maintain liquidity on a daily basis to honour field level transactions and invest in float/liquidity. If we assume an opportunity cost of capital at the rate of 18%¹⁶ per annum, SKDRDP’s profitability for that one office falls by an average of 13% but still remains profitable. SKDRDP has been able to effectively control the costs by shifting the salary structure of field staff from flat monthly salaries to performance based commissions. The transportation costs also went down as SKDRDP started using the vehicles donated by the partner bank for movement of cash and Cash Officers. Even though the cost of acquiring a vehicle is not significant, the donation from banks help in reducing the cost of the project.

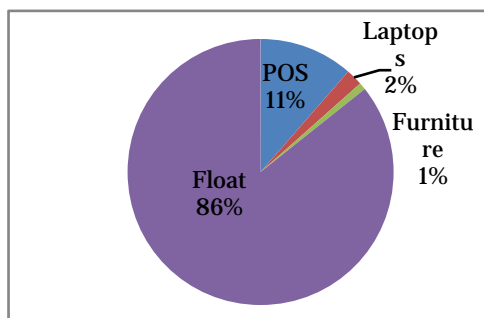
¹⁴See *MicroSave* research on [State of Business Correspondent Industry in India – The Supply Side Story](#)

¹⁵See *MicroSave’s* Policy Brief #2 on [The State of Business Correspondence: Agent Networks in India](#)

¹⁶ SKDRDP directly lends to SHGs at 18%. If the amount is not invested in liquidity, SKDRDP would have used it to lend to the SHGs.

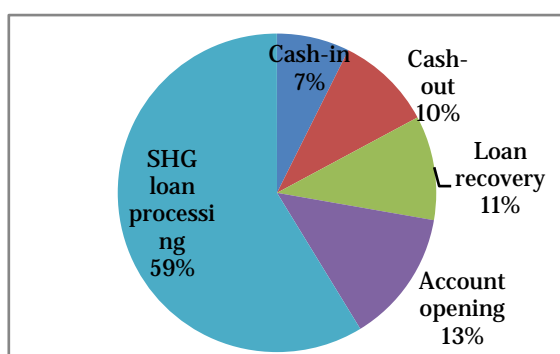
- Breakup of upfront costs**– At 86%, investment float forms a majority component of upfront costs. SKDRDP also invests in the POS machines for conducting field level transactions. The organisation shifted from hiring to purchasing the POS machines due to the high cost of hiring the machines, and at the same time purchasing POS machines provides depreciation benefits. Investment in POS machines totals 11% of the total upfront costs. Investment in laptops and furniture constitute rest of the upfront costs.

Figure 14 Break up of upfront costs



- Diverse Revenue Drivers** - In SKDRDP’s case, the BC service is directly linked to SHG activity, helping diversify income by coupling savings services with credit. Figure 16 shows SKDRDP’s different

Figure 15 Breakup of revenue sources



revenue sources and their respective contribution to total revenue. SHG loan processing fees form the majority of the revenue to SKDRDP, contributing to 59% of total revenue. Savings account opening contributes 13% of the total revenue (a much lower percentage than many other BCs). SKDRDP also earns income from conducting transactions, distributing smart cards and for loan recovery. The table below mentions revenue drivers and respective commission structures.

Figure 16 Revenue Drivers

Revenue driver	Rationale	Type
SHG account opening	To promote SHGs and to open their accounts with the bank	Fixed fee
Distribution of smart cards	To distribute cards received from TSP to the respective SHGs	Fixed fee
SHG loan processing	To process loan documents and recommend loan to the bank	Percentage commission
Loan recovery	To ensure on time repayment of loan and to follow up with delinquent SHGs	Percentage commission
Cash-in	To honour cash in transactions at the collection office	Percentage commission
Cash-out	To honour cash out transactions at the collection office	Percentage commission

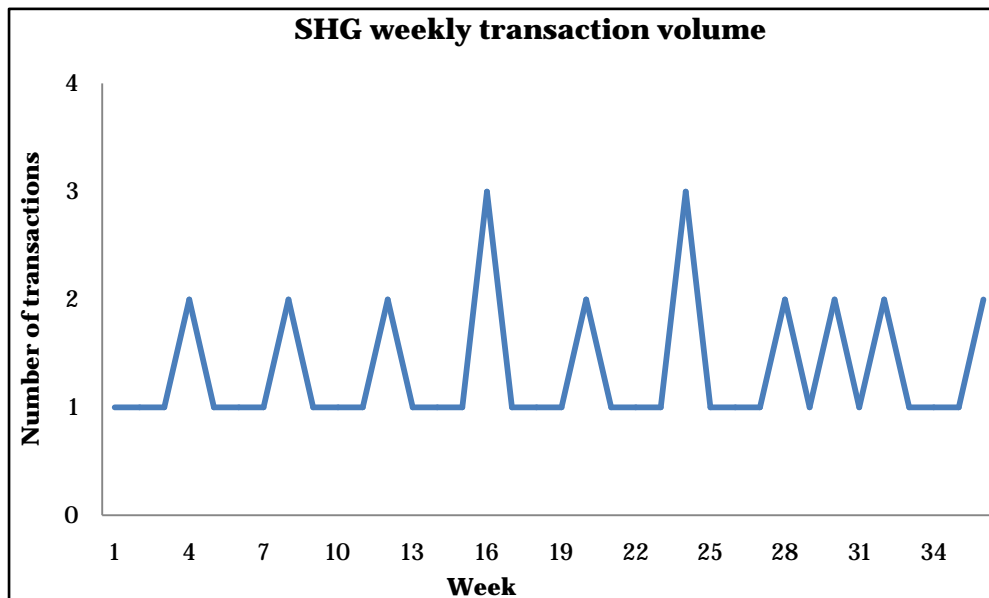
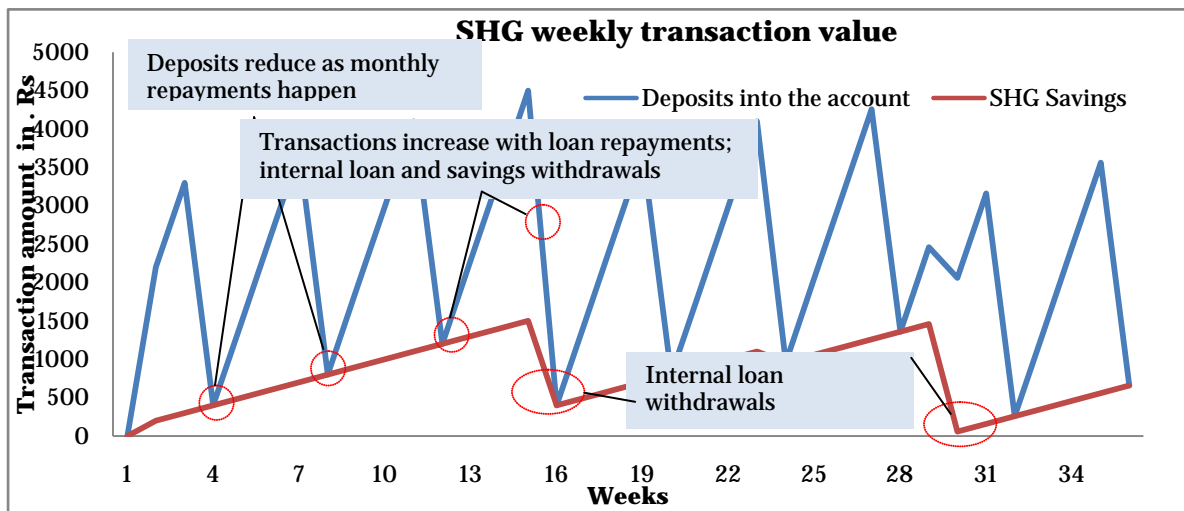
- Favourable financial terms** – As a majority of branchless banking deployments in India are bank-led, banks play a major role in ensuring the sustainability of BCs. Many financial inclusion programmes have met with limited progress¹⁷ because of poor remuneration from banks. However, SKDRDP is able to gain favourable overall financial terms as it offers additional value to the banks by promoting many customers at once through SHGs using credit services.

¹⁷See *MicroSave* publications on profitability and viability of business correspondents - [State of Business Correspondent Industry in India – The Supply Side Story](#), [Driving Viability for Banks and Business Correspondents](#), [Assessing Agent Profitability: MicroSave’s Agent Journal Studies](#)

- Higher account usage**– As the SKDRDP BC channel is linked to SHG activities, the whole programme represents true financial inclusion by providing savings as well as credit through the BC channel. SHGs make compulsory weekly savings, loan repayments and other withdrawal transactions through the BC channel resulting in higher account activity. The graphs below depict the transaction value and volume of a typical SHG.

In SKDRDP’s case, apart from weekly compulsory savings, SHGs deposit a quarter of their monthly repayment into their account on a weekly basis. At the end of four weeks, i.e. after a month, they transfer the deposits to make loan repayments. This way SHGs maintain repayment discipline by saving their loan instalment in their account on weekly basis. Apart from loan repayment, SHGs also make compulsory weekly savings with the bank and earn nominal interest.)The bank benefits by earning float income and higher account activity. SKDRDP also benefits by ensuring prompt repayment to avoid delay/delinquency of loans.

Figure 17 SHG transaction value and volume



Conclusion on SKDRDP Use of the BC model

Observers in the sector allege that many microfinance institutions have suffered mission drift because of their singular focus on profit maximisation, mainly through offering credit. In this context, SKDRDP's model demonstrates a fine example of an organisation that, as a charitable trust, has focussed on its mission of empowering the rural poor through social and economic means. By remaining as a charitable trust and without becoming a NBFC, the SKDRDP SHG-BC model allows SHPIs to enable credit intervention and at the same time develop the savings habit among its clients. Since the loan portfolio is transferred to the bank's balance sheet, SKDRDP avoids the need to maintain capital adequacy by seeking patient or private equity capital.

SKDRDP's model also demonstrates that BC channel deployment can be successful by providing a compelling value proposition to clients and banks, who are the most important stakeholders. Most BC deployments in India have been largely ineffective.¹⁸ In a frenzied race to open accounts to meet the financial inclusion mandate set by the RBI, many BC deployments offer basic vanilla savings products that do not meet the needs of the customers, leading to high account inactivity levels. However SKDRDP, through the SHG-BC model, provides a high value proposition to its clients by offering various credit and savings products at their doorstep. The model provides a compelling business proposition to the banks by generating significant business through SHG lending and by helping the bank meet their financial inclusion mandate. Nevertheless, there are still a few areas SKDRDP could strengthen, such as opening individual savings accounts for both SHG and non-SHG members; integrating other services such as insurance payments as well as agriculture finance with the BC channel to increase account activity and better meet customers' diverse needs; and exploring the option of using mobile technology platform to implement the BC model in existing and new deployments.

Emulating SKDRDPs success is not easy as there are many hurdles to overcome such as field level coordination with stakeholders; providing a compelling value proposition to the stake holders (especially customers and banks); and lastly a strong belief in the principle of equity and inclusive growth. However institutions and SHPIs can increase the chances of success by following the recommendations in the following section.

Figure 18 SHG women depositing into their accounts



¹⁸ Refer to *MicroSave India Focus Note 95* - [Saddling Up a Dead Horse: Financial Inclusion in India](#)

Opportunities and Recommendations for SKDRDP

With a humble beginning in 2009, SKDRDP *Suvidha* has come a long way with the current implementation in 16 districts of Karnataka. As an early adopter of the model, SKDRDP had to learn from its own mistakes as there were not many SHG BC model deployments to learn from (and there still are not). Though some issues remain unsolved, in its present shape the organisation is well-suited to handle a rapid scale-up of operations. Nevertheless, Indian digital financial services are rapidly evolving and are vulnerable to the actions of a diverse set of actors and agendas. To address existing operational challenges, adapt to the evolving changes in the industry, and enable rapid growth of deployment in future, SKDRDP may want to consider initiating some of the following actions. These recommendations also take into account feedback given by customers, SKDRDP staff, and staff from the bank and TSP partners:

Product Design

- Current customers are very happy with SHG savings and loan services provided by the bank through BC model. However, many are interested in opening **individual accounts with the bank** to avail other saving products such as recurring deposits (RD) and fixed deposit (FD) accounts through the BC channel. SKDRDP should work with partner banks to assess the feasibility of opening individual accounts of both SHG and non-SHG members to enable access to formal financial services to the poor and unbanked. To increase the account activity at individual level, SKDRDP should consider deploying Cash Officers at collection centres on a more regular basis – however, the cost-benefit of this would require careful analysis.
- SKDRDP can also work with the bank to examine options for integrating **additional services** such as insurance payments, agriculture finance etc., with the BC channel to increase the account activity. With wide outreach, a strong reputation, and an existing BC channel, SKDRDP can also consider offering other value added services such as government benefit payments, social security payments, farm input payments, money transfer services which could be beneficial to SHG members and other community members alike.
- SKDRDP could consider using **mobile technology** to implement the BC model in the existing as well as new deployments (versus using POS devices that tend to be more expensive). Mobile phones can have better battery backup and easier to handle (and even entail some self-service potential by customers). GPRS¹⁹-enabled mobile phones can be integrated with the account enrolment process and the enrolment data can be directly uploaded from the field. BSNL broadband works well in the areas of operation for SKDRDP and could possibly be used for making online transactions.

Commissions and Liquidity Management

- In certain bank partnerships, SKDRDP faces inordinate **delays in receiving commissions**. One of the banks has delayed disbursement of commissions for lack of coordination between the regional office bank staff, who process the payment advice and head office bank staff, who make the payment. Sometimes delays also happen due to frequent transfer of bank staff responsible for processing the payment advice. These inordinate delays freeze a very important source of working capital to the organisation. SKDRDP often digs into its own resources (receivables from other non-credit operations) to meet its day to day fund requirements. Prolonged delays in receiving commission can threaten the viability and sustainability of the model.

Stakeholder Management

- At present the stakeholders (bank, TSP and BC) conduct joint review meetings only if there is any major issue to address. However **regular review meetings** could help in better coordination among the stakeholders. Periodic meetings should take place at the branch, block, and state levels to review the programme, pre-empt any problems/issues and ensure smooth flow of operations.

¹⁹ General Packet Radio Service is a packet-switching technology that enables data transfers through cellular networks. It is used for mobile internet, MMS and other data communications (Source: <http://www.gsmarena.com>).

- The extent of cooperation from the bank manager depends on his/her awareness about the SHG credit linkage and the BC model. Usually managers with no prior knowledge about the model tend to delay taking decisions leading to a delay in programme implementation, especially credit disbursement. Hence SKDRDP and the bank partners should **provide branch managers a tailored orientation on the BC-model**, various processes involved, their roles and responsibilities and indicative parameters for due diligence (including site visits to successful branches). This effort should also be overtly and regularly supported by the branch managers' own supervisors, and the bank may want to consider tweaking the branch managers' performance reviews and incentives to align with the financial inclusion rules.

Processes and Operations

- Even with the dedicated FIC staff, the bank still must verify hard copies of the application forms and KYC documents and match them with the soft copies that the TSP sends (refer to the enrolment process in [Annexure IV](#)). This still takes 15-30 days to open accounts as the bank officials also have to process FI applications sourced by other corporate BCs in the region. The bank FIC could **speed up the process of account enrolment** by engaging additional staff – either in house or outsourced; or could automate the processes more through scanning technology and authentication.
- To date, and due to slow bank procedures, SKDRDP has often self-financed loans to meet SHG member needs; however, it now wants to use less and less of its own capital for such interim needs. Once a loan application is submitted, the bank takes a minimum of 20 days to sanction and disburse a loan to an SHG (compared to 7 days typically for an MFI group) – even with the introduction of the new BC model and technology. Many rural branch officers are already over loaded with many responsibilities and therefore often process SHG loans slowly. To rectify this, the bank may want to **centralise some of the loan processing and approval at FICs**, define required turnaround time for approval/rejection of loans, and monitor appraisal and disbursement performance. SKDRDP should work with partner banks to assess the possibility of disbursing the loan within the village so that the customers can save time and transportation cost.

Opportunities and Recommendations for Others

SKDRDP's success offers an attractive proposition for institutions and SHPIs to replicate its model. Given below are some of the success factors that enabled SKDRDP for successful implementation of SHG BC model. SKDRDP took many years to identify and operationalise these factors. Other SHPIs or independent institutions can aim to emulate those success factors relevant to their geographical and cultural contexts:

Product Design

- **Start with a good product mix of both savings and credit** -Starting with credit helps yield profit quickly, and savings alone cannot yield break even. Savings accounts make the loan disbursement and repayment processes more efficient. Apart from that, to offer a compelling value proposition to the customer, BCNMs should work with the banks to offer value added products/services such as remittance services, air time top ups, recurring/fixed deposits, insurance premium payments, utility bill payments. This will enable repeated use and higher account activity levels.

Stakeholder Management

- **Strong leadership from the top of the organisation** – Strong leadership with a long-term view and capacity to proactively engage multiple stakeholders to achieve the objective of financial inclusion is essential.
- **Very careful partner selection**– especially the bank partner. The bank should provide field support to the implementing partner by promoting the BC model. The branch staff should extend their cooperation to the BCs on various aspects such as promotion, marketing, diverting walk-in customers, quick enrolments etc.
- **Active participation from bank officials**– The involvement and cooperation of bank branch officials may not be uniform across all branches. Branch officials not familiar with the BC model and the use of such technology for the SHG bank linkage often delay account opening and loan sanctions. To avoid this, BCNM/SHPIs could develop an information kit which includes information about the programmes, various processes involved and the turnaround time for each process. These organisations should also talk to higher officials in the bank and update them with field insights to get their buy in.

Processes and Operations

- **Immediate commission payment**– The aspiring institutions or SHPIs must negotiate for immediate payment of commissions due to them on various aspects such as formation of SHGs, monitoring of SHGs, deposits, withdrawals, balance enquiry and other transactions. This will help reduce working capital cost and increase business profitability.
- **Field focus** - Despite the technology and products and working with a bank and a TSP, be “field focused first” – from the head of the BCNM to the field agent, and always remember the mission and need to serve the clients. Everything undertaken should be driven from that and from their needs and feedback (and field staff feedback). Client satisfaction and trust will make or break any BC-based system.
- **After clients, focus on staff**– Recruit local educated youth as it provides them employment and also creates higher buy-in among the local population. Provide relevant training to the staff so that they can educate the customers about the products and its benefits. Training also helps in adhering to the processes set by the BCNM.

Annexure I: Evolution of SKDRDP’s BC model

Since its inception in 2009, SKDRDP’s SHG BC model has evolved. After initial testing, SKDRDP expanded the programme to newer geographies through new partnerships with banks and TSPs.

Figure 19 Levers for growth



- Forging New Bank Relationships** –To expand the deployment to newer geographies, SKDRDP partnered with new banks with better presence in its respective geographies. SKDRDP also partnered with banks who offered better financial incentives for BC activities. As a result, SKRDRP has moved from a single bank tie-up in 2009 to tie ups with four more banks in 2012.The tie ups have helped widen and deepen implementation of the SHG BC model across the state of Karnataka. Diverse partnerships also help SKDRDP not depend on one bank and insulate itself from any change in terms of agreement (financial/non-financial) detrimental to the viability of the BC business

Figure 19 Growth in SHG level savings and loan

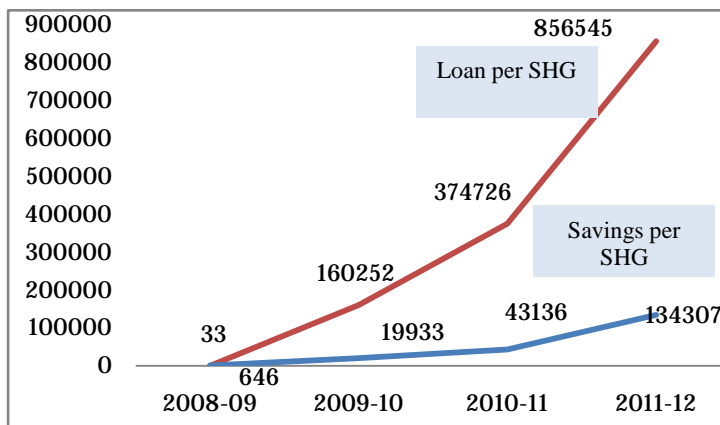


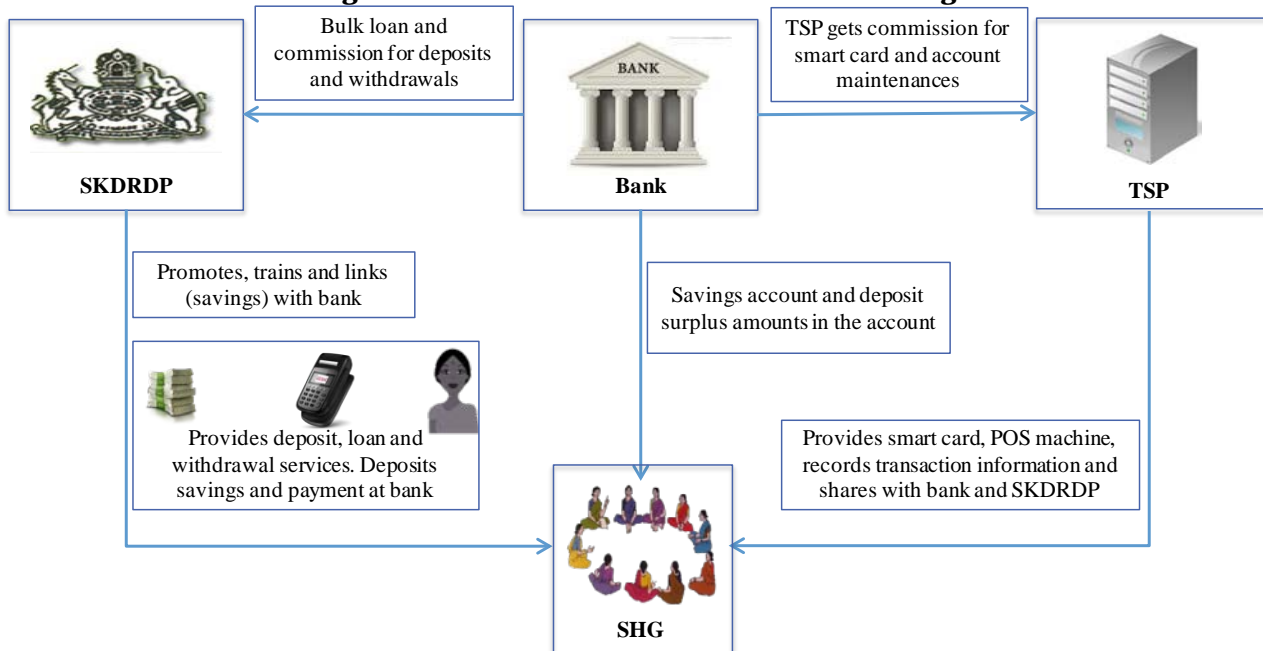
Figure 2o shows the growth in deployment through SHG level savings and loans disbursed. The SHG level savings and loan disbursal have undergone an annual average growth rate of more than 100% each. As the loan cycle increases the loan amount also increases. For example, a bank may lend Rs.50,000 for the first loan cycle and then increases the loan amount to Rs.100,000 for the second loan cycle. As the SHG becomes older, the SHG increases the savings corpus as well. Income from interest on internal lending among the SHG members also contributes to the SHG corpus.

- Forging technology tie ups-** Initially SKDRDP partnered with one TSP to provide BC services in its operational area. The initial stage of implementation was fraught with server related errors, connectivity issues and glitches with smart card recognition. Also, as the partnership was at its initial phase, the coordination between SKDRDP, TSP and the bank was not structured and efficient. As one project officer at SKDRDP put it, *“Trust plays a key role in customers adapting to the new platform and service delivery. With transaction failures largely due to technical issues the customers grew apprehensive about using the new platform”*. The TSP quickly recognised the field level issues and addressed the glitches. It also started providing transaction and MIS data to SKDRDP/bank to monitor

field level transactions. Because of this, SKDRDP continued with the partnership for three years. However as the deployment expanded to new geographies, SKDRDP decided to bring in new partners and new technologies. Recently, the organisation has tied up with a new TSP and is experimenting GPRS handset mobile based technology. The mobile technology offers value in terms of low up-front investment and ease of operation.

- **Challenges of coordination-** Despite the growth in deployment, SKDRDP faces challenges in coordination with other stakeholders, especially banks. The main challenge they face with the bank in the BC *Suvidha* model is the delay in disbursement of loans to SHGs. As an intermediate measure to overcome this challenge, SKDRDP has come out with the following model.

Figure 20 Intermediate model for SHG lending



In this model, the bank provides a bulk loan to SKDRDP and SKDRDP advances loans to SHGs. SKDRDP is responsible for loan sanctions, disbursements and repayments of loans to SHGs. The bank provides the technology platform to SKDRDP for disbursement and collection of loan funds. The bank also opens savings accounts for SHGs for depositing savings and to repay the loan through the account. This way banks benefit by mobilising SHG savings, monitor the usage of loan funds and also track SHG repayments. However, the model poses risk to SKDRDP, as the organisation holds the loan portfolio on in its balance sheet.

Since the inception of the BC-*Suvidha* model in 2009, SKDRDP has learnt many lessons and made improvements based on those lessons. One of the senior employees of SKDRDP says, “We have learnt many lessons from the field and this helped us to guide other bankers and TSPs who expressed interest to work with us at latter stage in other districts”.

Initial System	Current System	Reasons for Change
<p>Seva Nirathi (SN), a community level field staff of SKDRDP was responsible for SHG promotion and community development work in the village with support from a Field Supervisor (FS).</p> <p>SN performs cash transactions (deposits and withdrawals) under the</p>	<p>SN is replaced by an agent called Seva Pratinidhi (SP). SP, a community level volunteer, promotes and monitors SHGs with support from FS.</p> <p>SP is not involved in cash transactions (deposits and withdrawals) or operating the POS machine. SP is responsible only for group promotion, maintenance of books of records and other</p>	<p>Performance based commissions motivate the employees and enable them to work towards SKDRDP’s objectives. Also SKDRDP does not have to incur other payroll costs as the SPs are not on its staffing rolls.</p> <p>SKDRDP can recruit more SPs as payment is limited only to the service provided by the SP. This ensures close monitoring of SHGs.</p>

Initial System	Current System	Reasons for Change
<p>SHG BC-Model by using a POS (Point of Sale) machine.</p> <p>SN earns a monthly salary and other benefits as per SKDRDP's norms.</p>	<p>community development work.</p> <p>SP earns a service fee and commission based on the service s/he provides.</p>	<p>SPs are local SHG members who live in the same village and know about the prevalent social and economic conditions.</p> <p>Low potential conflict of interest as SP is involved only in promotion of SHGs and not in handling transactions.</p> <p>SPs can completely focus on group promotion, training, and monitoring of groups.</p>
<p>Both SN and FS conduct cash transactions (deposit, withdrawals and loan disbursement) at village level and deposit cash at bank.</p>	<p>Cash Officer (CO) deals with cash transactions (deposits and withdrawals) and loan disbursement at the village level and deposit net cash at bank. They visit cash collection centre in each village once a week.</p> <p>FS is responsible to train and supervise SPs; monitor SHGs and SHG-federations and manage delinquency.</p> <p>CO is responsible to operate POS machine.</p>	<p>CO is trained on cash handling and POS operation and can professionally handle the transactions.</p> <p>There were issues with uploading transaction data from the field because of connectivity issues. Now CO can update transactions from the branch office/project office which has better connectivity</p> <p>SN and FS can concentrate on group promotion, monitoring, and delinquency management activities.</p>
<p>The SKDRDP Branch Manager is responsible for microfinance (MF) activities, administration and other developmental programmes.</p>	<p>The Branch Manager is responsible for administration and other developmental programmes. MF-Manager is responsible for micro-finance activities.</p>	<p>Lack of required focus on MF operations by Branch Manager resulted in issues like delays in timely reconciliation and consolidation of field level MF reports.</p>
<p>Branch Manager verifies the transaction report sent by TSP with the consolidation of cash collection reports manually, taking a long time.</p>	<p>SKDRDP has developed MF related software (MF-MIS) which can identify the difference between cash collection report details and the transaction report sent by the TSP server.</p>	<p>Some of the transactions made at field level do not reach the TSP server and resulted in long pending reconciliations. Due to the new MF software the differences are immediately identified.</p>
<p>Customers can lodge their complaints with the SN based in the village and occasionally with the FS.</p>	<p>SKDRDP has established a formal grievance redress mechanism to address the grievances/complaints. Collection Centres display contact details of all the staff on display/notice boards.</p> <p>Customers can approach senior level staff in case their complaints/problems are not resolved.</p>	<p>There were potential conflicts of interest as SN/FS would handle the complaints against him/her. As a result many complaints/grievances of the customers used to remain unaddressed.</p> <p>Display of contact phone numbers helps the customers to lodge complaints to the appropriate person and resolve them quickly.</p>

Annexure II: Staff Roles and Responsibilities

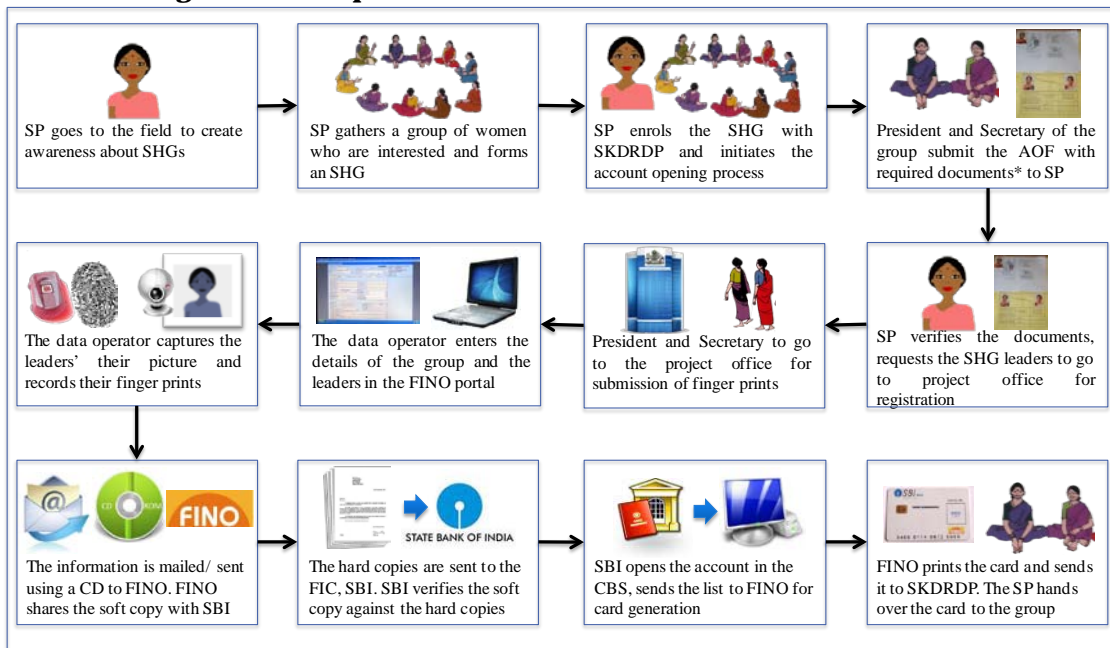
Title	Role
Project Officer (PO)	<ul style="list-style-type: none"> • Heads the district unit for BC activities. Reviews the End of Day (EoD) reports submitted by MF-Project Manager and sends the reports to BC control office • Takes care of other community development programmes like agriculture and education
Audit Team	<p>Audit team consists of 3-4 individuals who regularly visit the field to ensure SHG records are accurate and up to date.</p> <ul style="list-style-type: none"> • Conducts yearly audits of the SHGs and grades SHGs • Prepares trial balance, income expenditure and balance sheet of the SHGs • Interim audits (once in 3 months) to check if the SHG accounts are properly maintained
Microfinance Manager	<p>Microfinance Manager is responsible for running day to day microfinance operations, such as enrolling new SHGs and collection of repayments from existing SHGs.</p> <ul style="list-style-type: none"> • Does the final check before enrolling the SHGs • Reconciles cash collected for the day with the transaction data sent by TSP • Allocates Cash Officers to cash collection centres • Processes loan requests from SHGs • Coordinates with the bank manager for reconciliation of cash collected reports, bank level transactions and TSP reports
Admin Manager	<ul style="list-style-type: none"> • Coordinates with branches/collection offices for supplying stationery/ inventory and staff payment related aspects. • Releases loan cheques and makes payments to vendors • Prepares salary slips for employees
Data Entry Operators	<ul style="list-style-type: none"> • Enters the SHG enrolment data in a laptop and takes photograph and thumb impression of SHG leaders • Uploads the SHG data to the TSP server
Cash Officer (CO)	<ul style="list-style-type: none"> • Cash Officer visits the collection centre assigned to her/him to collect savings, repayments, withdrawal and loan disbursement • Operates the Point of Sale (POS) machine to conduct transactions • Records the transactions in a transaction register • Deposits the cash collected for the day in SKDRDP's branch account at bank and takes deposit slip • Submits the cash collection reports to the MFI manager • Inform respective FS regarding repayment problem if any
Field Supervisor (FS)	<ul style="list-style-type: none"> • Visits the field to monitor day to day operations • Approves and recommends loan applications • Verifies purpose of loan if the amount exceeds Rs.25,000 per member • Supports SP in delinquency management
Seva Pratinidhi (SP)	<ul style="list-style-type: none"> • Visit the villages in service area and forms SHGs • Provides training to SHG members on bookkeeping, SHG functioning, etc. • Oversees functioning of SHGs • Processes loan applications • Ensures timely repayment of loans • Follows up with delinquent customers for loan recovery • Marketing of insurance (life) and pension products
Suvidha Sahayak (SS)	<ul style="list-style-type: none"> • Verifies group level transaction details with the total amount collected by the group • Supports Cash Officer in collecting savings, repayments, withdrawal and loan disbursement • Distributes copies of monthly bank statements to groups

Annexure III: Field Based Monitoring System:

Village level	SP Level	Field Supervisor	Cash Officer	MF-Manager	Project Officer
<ul style="list-style-type: none"> • SHG representatives conduct financial transactions based on resolution of the group and record it in Minutes Book. • SHG federation sanctions/ recommends loan by assessing the SHGs. • Documentation sub-committee, appointed by SHG federation, reviews all SHG records during the monthly federation meeting. 	<ul style="list-style-type: none"> • Ensures proper maintenance of SHG books of records. • Submits monthly progress report to the FS. The report includes information about new group formation, financial performance of SHGs, issues in group functioning, if any. • Verifies the SHG loan documents approved by the SHG federation with repayment status of SHG group. 	<ul style="list-style-type: none"> • Visits all his/her allocated villages at least twice in a month, visits at least 36 SHGs, and attends all SHG federation meetings. • Verifies the SHG loan documents approved by the SHG federation with repayment status. • Submits monthly progress report to the Project Officer about the performance of SHGs and Federations in his/her operational area. • Submits the monthly performance report of all the SPs under him/her. • FS attends monthly progress review meeting conducted by PO. 	<ul style="list-style-type: none"> • Cross checks the SHG level minutes book before making a transaction for the SHG. • Gives a receipt duly signed by him/her for all transactions • Records all transaction details in Cash Transaction Register. • Conducts BoD and EoD every day. • Submits the Cash Collection report along with bank deposit slip to MFI manager. 	<ul style="list-style-type: none"> • Verifies cash consolidation report of each cash officer with bank deposit slip and EoD receipt. • Consolidates cash collection report and verifies with transaction report received from the TSP. • Reconciles cash collection report with the transaction report and bank statement. • Submits cash collection report and reconciliation report to SKDRDP's BC office • Conducts weekly review meeting with cash officers to assess their performance and discuss issues, if any. • Visits cash collection centres randomly to check the operations. 	<ul style="list-style-type: none"> • Conducts review meeting with SPs, FS and MF manager to review the performance against the plan. • Submits monthly progress reports to the HO • Visit SHGs and Federations randomly to check the performance • Verifies and approves the SHG loan documents based on MIS report of the project office and recommendations of federation, SP and FS.

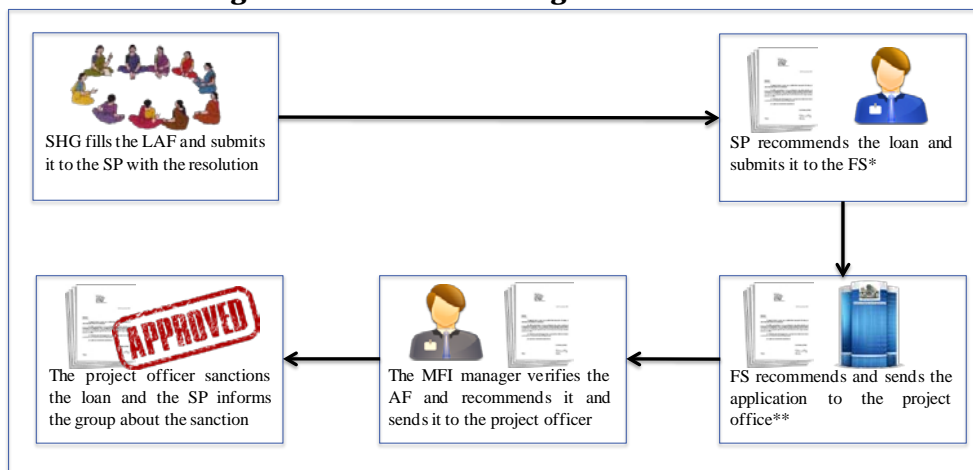
Annexure IV: Field Level Processes

Figure 21 Group Formation and Account Enrolment Process



*The identity proof of the SHG president and secretary, their photographs and group resolution

Figure 22 Loan Processing - Internal Loan



*For loans more than Rs.25,000 FS verifies the purpose for which the loan is required and recommends

** For larger amounts the loan has to be sanctioned by the project officer or other higher authorities

Figure 23 Loan Processing - SKDRDP Loan

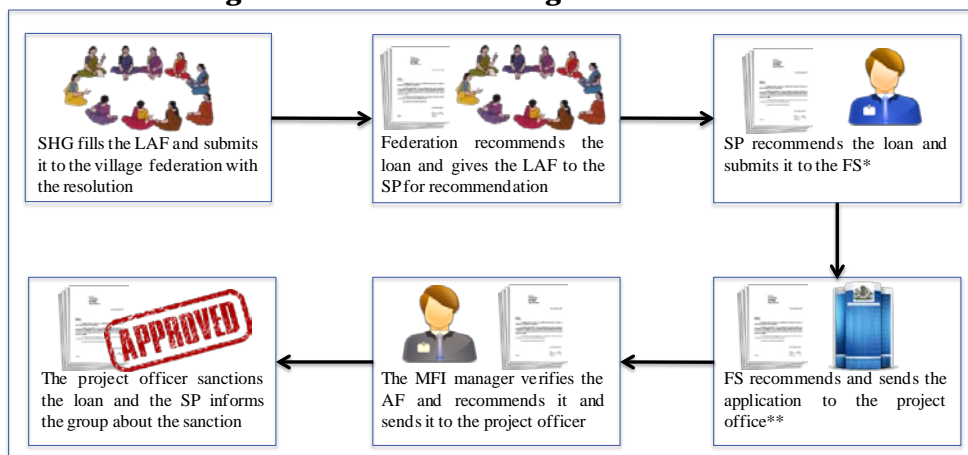


Figure 24 Loan Disbursement - Internal Loan

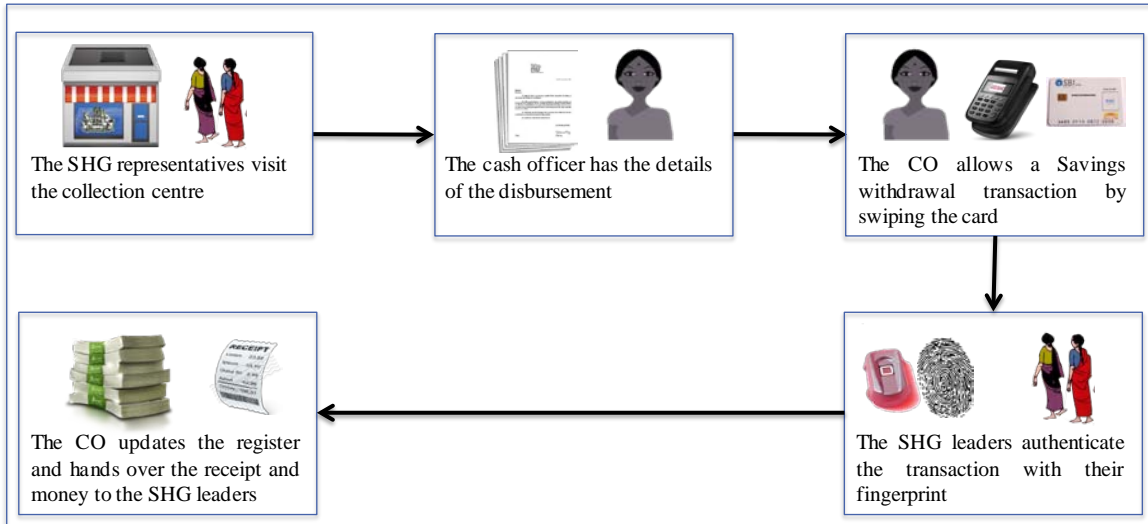
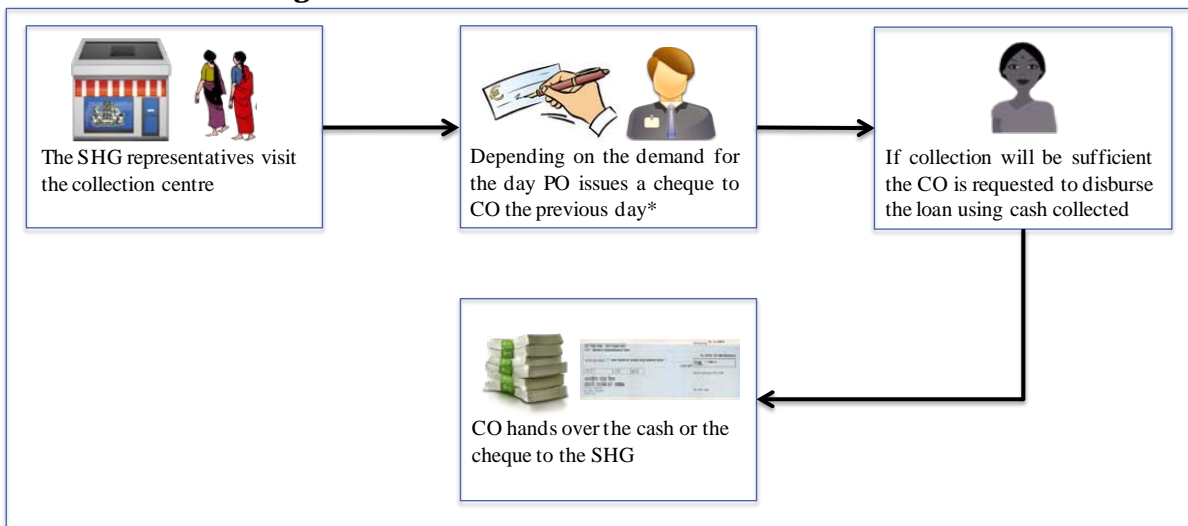
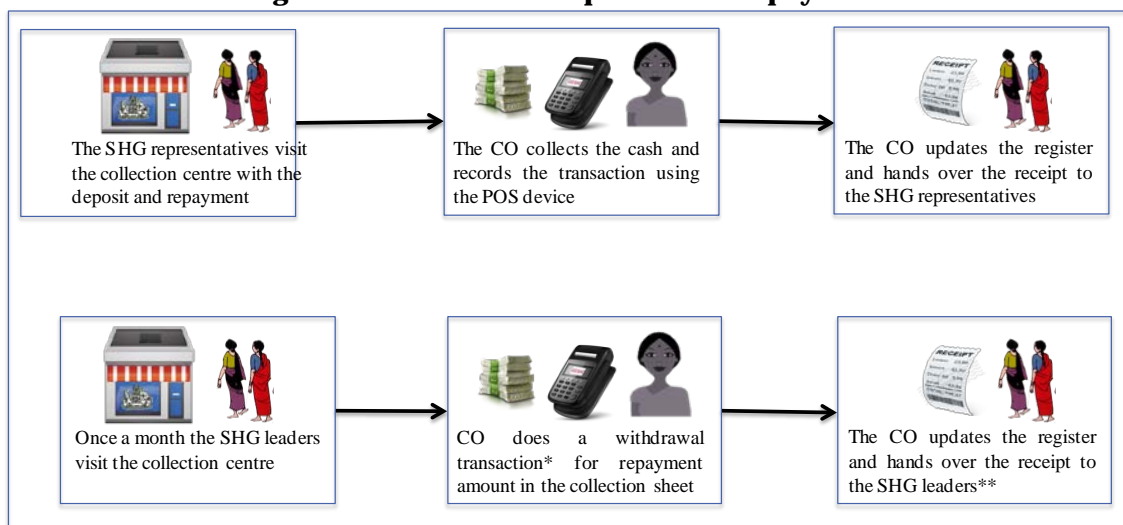


Figure 25 Loan Disbursement - BC SuvirdhaLoan



*The cheque is issued only if the expected collection is lesser than the amount required for disbursement

Figure 26 Collection - Deposits and Repayment



*The withdrawal transaction transfers the repayment due from the SHG account to the Settlement account

** No cash is given to the members