An Era Of Innovation

30 Years of SDC's Involvement with
Rural Finance in India

EDA Rural Systems

An Era of Innovation

Thirty Years of SDC's engagement with Rural Finance in India

EDA Rural Systems Private Limited

602, Pacifi c Square, 32nd Milestone NH8,
Gurgaon 122 001, India

September 2007

Table of Contents

Preface

"Following thirty years of active involvement in rural finance," this report was commissioned by the New Delhi office of the Swiss Agency for Development and Cooperation (SDC) "to capitalize on its experiences made so far and, to document them for dissemination to a larger circle of interested practitioners." The objectives of this 'capitalisation' were

a) to document the experience of SDC interventions in the field of access to finance for the poor in rural India
b) to analyse the effect of SDC interventions in this field
c) to organize the production of a film on SDC's involvement in the field of microfinance.

This report covers the main partners of SDC in the area of rural finance in India over the past thirty years. These partners were selected on the basis of their common agenda to reduce poverty in India. The partnerships with

- NABARD – the National Bank for Agriculture and Rural Development
- SIDBI – the Small Industries Development Bank of India
- BASIX – Bhartiya Samruddhi Investment and Consulting Services Limited
- Sa-Dhan – the network of Community Development Finance Institutions in India
- Non-government organizations – MYRADA, Outreach and WOTR

and others have largely focused on the development of innovative finance products for the poor and micro and small enterprises, on capacity building as well as on organization development for instance by assisting the Bankers Institute of Rural Development (BIRD) in reforming the Regional Rural Banks (RRBs) through measures of Organisation Development. "Strengthening partners in their advocacy and policy work, networking and knowledge sharing has been a cross-cutting part of all SDC collaborations in this field."[1]

This report is based on a combination of

1 Discussion with key persons in SDC, its former employees and/or consultants and present and former senior staff of its partner organizations (as listed in **Appendix 1**)
2 Study of a set of project documents, credit notes, reviews and evaluation reports
3 Visits to the field projects of some of the leading partners – NABARD, SIDBI, BASIX
4 The study team's previous knowledge in the field of livelihood promotion and rural finance in India and Asia. The lead author's career – starting in 1978 – has run virtually in parallel with the SDC rural finance programme.
5 The report is accompanied by a film that documents some of the achievements of the programme through SDC's major partners.

The study team is grateful to all those listed in **Appendix 1** for their support during the work. We would like to thank, in particular, the SDC Delhi rural finance team of Adrian Marti and Teresa Khanna for commissioning the work and for their support and comments at various stages of the work. Thanks are also due to Erwin Baenteli for his comments on the first draft of the report. The responsibility for any remaining shortcomings in the report are entirely ours.

EDA Rural Systems Pvt Ltd Sanjay Sinha
Gurgaon, India Swetan Sagar

September 2007

---

[1] All quotes are from the Terms of Reference provided by SDC Delhi for this work.

Acronyms

ADS	ACCESS Development Services
ARDC	Agricultural Refinance Development Corporation
BASICS	Bhartiya Samruddhi Investment and Consulting Services Ltd
BASIX	Brand name of the group of companies owned by BASICS Ltd
BIRD	Bankers Institute of Rural Development
CASHE	Credit and Savings for Household Enterprises
CB	Cooperative Bank
CDP	Cluster Development Programme
CFC	Common Facilitation Centre
CFSF	Credit & Financial Services Fund
CGTSI	Credit Guarantee Trust for Small Industries
COSMODE	Consortium for Strategic Management and Organisation Development
DIC	District Industries Centre
DRIP	District Rural Industries Programme
EDP	Entrepreneurship Development Programme
GoI	Government of India
GOPP	Goal Oriented Programme Planning
HID	Human and Institutional Development
IDA	International Development Association (of the World Bank)
IDS	Institutional Development Services
IGS	Indian Grameen Services
IIT	Indian Institutes of Technology
ILS	Informal Lending Scheme
IRDP	Integrated Rural Development Programme
JPC	Joint Project Committee
LAB	Local Area Bank
MCGF	Mutual Credit Guarantee Fund
M-CRIL	Micro-Credit Ratings International Limited
MFDD	Marketing Finance and Development Department
MVIF	Micro Venture Innovation Fund
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development, India
NFS	Non-Farm Sector
NIF	National Innovation Foundation
ODI	Organisational Development Initiative
P&D	Promotion & Development
PIDOW	Participative Integrated Development of Watersheds
PLI	Partner Lending Institutions
RBI	Reserve Bank of India
REC	Regional Engineering College
REDP	Rural Entrepreneurship Development Programme
RFRP	Rural Finance Reform Project
RIF	Rural Innovation Fund
RIP	Rural Industries Programme
RNFS	Rural Non-Farm Sector
RPCF	The Rural Promotion Corpus Fund
RRB	Regional Rural Banks
SDC	Swiss Agency for Development and Cooperation
SIDBI	Small Industries Development Bank of India

SIMAP	Small Industries Management Appreciation Programme
SKS	Swayam Krishi Sangam
SMERA	SME Rating Agency
STUP	Skill-cum-Technology Upgradation Programme
TPC	Training-cum-Production Centre
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WOTR	The Watershed Organisation Trust

Executive Summary
– the era of innovation

Easy availability of institutional credit and other financial services is essential for the poor to sustain their livelihoods, especially in rural areas. Since 1978, SDC has supported rural finance in India, convinced that linking the informal and formal financial systems is a more effective approach than building up new or parallel systems to meet the needs of the poor. SDC's major objective has been to

"**strengthen the existing systems to become more effective in terms of outreach in favour of the poor and to ensure that this occurs in an institutionally sustainable manner**."

SDC's objectives for the programme in rural finance have, over the past 30 years, been addressed through four types of interventions

1 Non-farm sector (NFS) lending to micro- and small enterprises
2 Microfinance services (mainly credit) for low income families
3 Human and institutional development of its partners to strengthen their commitment and ability to implement the above activities
4 Advocacy efforts for the establishment of a facilitating policy framework for the rural non-farm sector and microfinance.

For this purpose, SDC has chosen partners of strategic importance with whom it shares a common agenda to reduce poverty in India. Through its eagerness to encourage all possible measures to promote finance for disadvantaged groups of poor people, SDC has stimulated dynamic changes in the rural financial landscape in India resulting in an era of innovation; an era during which SDC has been at the forefront of supporting the economic reform process in favour of the poor.

In SDC's rural finance programme, the long-standing and dominant partner has been the National Bank of Agriculture and Rural Development (NABARD). One important outcome of this partnership has been the world's largest microfinance programme, "the Self Help Group-Bank linkage", supported by SDC since its inception in 1991.

SDC's partnerships with NABARD and others over the past 30 years are summarised in the **Annex** table at the end of this report in terms of time periods (in phases) and funds. NABARD, using the design pioneered by MYRADA and later with support from SDC's other NGO partners (and with others), developed innovative finance products for the poor and for micro- and small enterprises.

Product innovation for enterprise promotion has been a key factor in both the SIDBI and BASIX programmes as well. BASIX's focus has been on promoting livelihoods of the near-poor while SIDBI's programme has supported mainly low income entrepreneurs. Each of these partners' programmes has had important components of human and institutional development for strengthening the capacity of their staff to undertake innovative rural finance activities, as well as to build the capacity of associated institutions such as self-help groups, producer companies, NGOs and regional rural banks (RRBs) in the area of rural finance. SDC's "venture grant" approach in the promotion of BASIX has now been replicated through support to SKS for a new programme for the ultra-poor. This and support to the UN Solution Exchange

provides these institutions with seed money to test their ideas and, in case of success, it will enable them to leverage new funding for continuing their programmes.
To build upon field experiences, these collaborations have also aimed to strengthen partners in their advocacy and policy initiatives, in networking and knowledge sharing. In addition, the three collaborations with Sa-Dhan, Microfinance India and the World Bank have supported partners for undertaking advocacy for obtaining a facilitative policy framework for rural finance.

It is apparent from the **Annex** that SDC's national level strategic partnership with NABARD is, by far, its largest engagement in the field of rural finance in India. Its funding to the extent of over CHF200 million constitutes nearly 83% of the total funds committed by SDC for rural finance in India during this period. NABARD's domination is partly the result of the extended period of collaboration with it but it also reflects, to a significant if not complete extent, the importance attached by SDC to its relationship with the apex bank.

This report contains

- An overview of the SDC interventions in the field of rural finance – SDC's partners, their programmes and the roles played within those programmes
- Major achievements and value addition by SDC in the field of rural finance at the operational and policy levels
- Challenges faced by SDC and its partners in this field
- Lessons learnt in the programme and the good practices that have emerged from the activities undertaken as part of the programme.

Main Achievements

The rural finance programme of SDC has significant achievements in re-orienting NABARD, as an institution, towards the inclusion of NFS activities in its programmes. NFS was a very new and important idea 25 years ago when it was first supported by SDC. The facilitation of microfinance on a large scale through the support of its early experiments and those of the NGO MYRADA, with the SHG-bank linkage programme is another important achievement. The collaboration made a huge difference to NABARD's approach to development and its focus on disadvantaged sections of the population has even been characterised by the apex bank's senior officers as enabling "reforms with a human face".

Similarly, SDC India encouraged the early experiments of SIDBI with its wholesale lending programme for MFIs. This turned out to be the testing ground for SIDBI's major programme of lending and capacity building support for MFIs in India. SDC's support for SIDBI's programme for establishing and promoting micro-enterprises was also instrumental in enabling the design of much larger support for the development of enterprise clusters, currently in progress.

Unlike SDC's support to large public sector development banks like NABARD and SIDBI, its early "venture grant" support to BASIX was intended to seed a professional institution with a long term vision that was congruent with its own objectives. Thus, SDC supported the livelihoods approach of BASIX without, initially having any idea what it would lead to; simply working with the management, enabling it to work out solutions on strategic issues.

Finally, in enabling advocacy efforts for microfinance and policy support for rural finance, the SDC programme has played a part in advancing the policy debate in India to a level where a new micro-finance law is currently being considered and the rural finance reform process is well advanced.

Major challenges

Manpower constraint: SDC documents on the rural finance programme emphasise the lack of manpower resources as a limitation on the activities that the India coordination office could support. This constraint was apparently felt both in the number and variety of institutions SDC could work with and in the extent to which it could provide intellectual and advisory support to the programmes of its partners.

SDC's response was to work with large partners – NABARD and later SIDBI. While this resulted in a loss of flexibility and short term efficacy – since these are public sector institutions – this was deemed to be acceptable in return for maximising outreach. The choice of BASIX for support in livelihoods finance was a strategic decision whereby venture capital was provided as a grant to an institution with an innovative approach. Support to other programmes was based on similar criteria.

Voluntarist ethos: While the vocabulary in SDC's livelihood support programmes gradually shifted from tiny industries and artisans to talk of entrepreneurs, there was a resistance to target market-driven actors and institutions as potential intermediaries. The philosophical make-up amongst the partners, NABARD and then SIDBI was voluntarist and anti-market, preventing the successful implementation of the programme. As a result, crucial aspects, such as marketing, were not addressed for a very long time. Even SDC itself took two years to take a decision on supporting BASIX because the "for-profit" nature of the initiative was deemed to be contrary to the spirit in which SDC's public funds should be used.

Livelihood promotion through BASIX: The financial products and services developed by BASIX were soon replicated by others, it was unable to convert to a full fledged bank on account of regulatory restrictions and, therefore, unable to mobilise relatively cheap resources in the form of deposits and the development of livelihood support services required a slowing down of its financial services. This, inevitably, resulted in some loss of earnings for the institution necessitating, eventually, a new round of funding from SDC.

Advocacy: The challenge in the area of advocacy has been to overcome the ingrained tendency of the mainstream financial sector to regard matters of micro- and rural finance as peripheral to the main business of providing loans to large enterprises and urban consumers. This resistance has gradually been whittled down but not yet eliminated, as witnessed by the reduction of the new microfinance bill to a secondary piece of legislation that is more a sop to the voluntary sector than a serious attempt to integrate it with the national mainstream.

Lessons learnt

Development strategy and the relationship with partners – SDC is seen as a collaborative rather than a dominating donor and this has fostered a genuine sense of partnership in the programme; being a "small" donor contributing only a fraction of the budgets of organisations like NABARD and SIDBI is likely to have facilitated this situation.

Monitoring issues – it worked well to have Indian programme officers (unlike the earlier experiment with Swiss advisers), to establish a joint review mechanism and for the large partners to outsource some parts of their monitoring needs.

Reform of rural finance – effective institutional reform needs continuous effort over an extended period of time; periodic independent studies of that effort could help to its improve design and enhance results.

Rural Innovations Fund – operationalising venture capital initiatives through public sector institutions in developing countries can be a real challenge; SDC's appetite for risk is much greater than theirs.

Rural Industries Programme – a model for livelihoods promotion – enterprise promotion needs follow up actions as well as start-up support. It is most effective through a sub-sector and cluster-based approach.

Lessons from BASIX – success in supporting development ventures carries its own consequences that cannot be predicted at the start; such success can impose its own costs so that the entire benefit does not necessarily accrue to the supported venture but may, nevertheless, be beneficial for a wider constituency in the field of development endeavour.

Bankers Institute of Rural Development – the nurturing of centres of excellence requires constant commitment; public sector institutions are not necessarily able to sustain that commitment through successive changes of leadership.

Human and institutional development – institutional change in a large, public sector institution takes a while to seed and blossom; an effort is required to maintain the momentum; more dynamic, but smaller, private ventures like BASIX are more successful but can also become victims of their own success.

Human resource development for small industries – high profile institutions like the glamorous Indian Institutes of Technology may not take the interest necessary for this purpose; it is better to target second level institutions that see support for small industries as a means of improving their engagement with the local economy.

In conclusion

Its engagement with rural finance in India has seen SDC register some remarkable achievements through its support of

- NABARD's re-orientation away from purely agricultural lending towards the extensive inclusion of NFS programmes in its activities
- extensive innovation by SIDBI in its promotion of rural industries
- the phenomenally successful SHG-bank linkage programme promoted by NABARD and originally developed by MYRADA, another SDC partner
- the early experiments of SIDBI with the Informal Lending Scheme that enabled the design of the equally successful MFI support programme of the SIDBI Foundation for Micro Credit
- BASIX's innovative product development and livelihood promotion activities (along with other development funders) that have helped to demonstrate the possibilities for rural and micro-enterprise engagement by other banking and financial institutions
- the advocacy efforts of Sa-Dhan, BASIX and Microfinance India (along with other development funders) that have brought microfinance to the notice of the government and led to the current debate on the appropriate nature of microfinance policy necessary to serve the needs of micro-clients in India.

That some of these successes were partial rather than complete is inevitable in working with huge institutions such as NABARD and SIDBI. That there were failures, inefficiencies and lessons to be learned during this thirty-year journey is not surprising. Gratitude for the support given to partners is explicit, appreciation of the results of the programme is manifest and an eagerness to continue the cooperation (if possible) is widespread.

Thirty years of SDC's engagement with rural finance in India is a job well done!

Section One

Thirty years of SDC engagements

- from risk aversion to innovation and entrepreneurship

Over the extensive 30 year period covered by this report, SDC's rural finance programme has undergone three major reorientations; from

- supporting the farm sector, moving to the non-farm sector in the mid-1980s
- from credit to include non-credit activities like promotion and development in the late 1980s, and
- from a purely poverty alleviation programme to one that includes entrepreneurship development and institution building in the mid-1990s.

A further thread of the programme was the increasing emphasis on advocacy in favour of enabling a facilitating framework for rural finance that started in the late 1990s and has been an important part of the programme in the current decade.

Using the framework provided in the introduction, this section provides an overview of the activities and programmes undertaken by SDC's partners to promote rural finance in India.

1.1 Strategic Partner: NABARD

The cooperation with NABARD (NB) in the field of rural finance is not only SDC's largest single programme in India but also with any bilateral partner, other than a government, worldwide. Since NB has been such a dominant partner, it is apparent that the SDC-NB relationship has endured over the reorientations identified above.

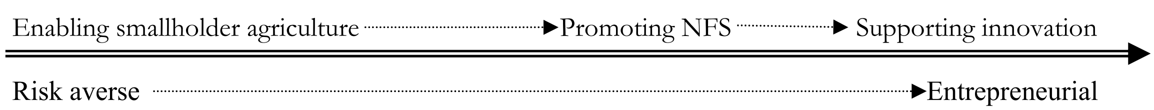
The cooperation began with four agreements which were signed in regular and rapid succession between 1979 and 1984. For SDC these were grants to the Government of India (GoI) which the latter on-lent to NB to be parked in a special fund. From the fifth agreement onwards SDC grants were passed on to NB in the same form, for which a 'Promotional Fund' was set up to serve as a repository of refinance repayments by partner lending institutions (PLIs) usually the banks – commercial, cooperative or rural. There was a three year interval between the fourth and the fifth agreement signed in 1987. It took another four years for the sixth agreement in 1991 and four more years for the seventh in 1995. The sequencing of these grants was partly caused by outside factors, such as the draw out negotiations for the fifth World Bank/IDA in the mid-eighties, or the cash crunch in Switzerland's state budget in the early nineties.

The table in **Annex 1.1** presents the funding, objectives and activities of the eight phases of the SDC-NB collaboration. Consideration of the information in the table indicates the evolution of the programme – in tandem with the thinking in SDC – along a spectrum from supporting the promotion of smallholder agriculture, through a shift towards promoting the non-farm sector to a focus on innovation. This shows a graduation in the programme along a strategic continuum from conventional, rural poverty reduction to non-conventional activities enabled by support for innovations as shown in **Figure 1.1**. So, from supporting lending to small farmers under the IRDP followed by the financing of the Industry, Service and Business component of the programme, through promoting the establishment of self-help groups (SHGs) and the engagement of banks in this activity, the programme has now graduated – through the Rural Innovations Fund – to such activities as investing in herbal based bio-pesticides and, most recently, in a venture capital fund for micro-enterprises. Other activities of note in this programme were

i the Organisational Development Initiative (ODI) – undertaken in the late-1990s to revitalise the work culture of the rural banks through the intervention of the NABARD promoted (SDC-supported) Bankers Institute for Rural Development (BIRD), and

ii the human development activities (Human and Institutional Development, HIID) for NB's own staff (as well as some of their key banking and NGO partners) to orient and focus their thinking towards engagement with non-farm sector activities as a means of increasing their support to SDC's target group of disadvantaged members of the community.

Figure 1.1
Evolution of the SDC-NB partnership



1.2 Developing and promoting microfinance services through key NGOs

In parallel with the initiatives to re-orient NABARD towards artisan industries and livelihood finance (in addition to its agricultural lending), SDC also supported from the early 1990s the pioneering efforts of MYRADA and later the efforts of other NGOs engaged in extending the outreach of the self help group-bank linkage model for livelihoods finance. This was an extension of the micro-enterprise promotion strategy and increased SDC's focus on the most disadvantaged groups in India. This support to NGOs – primarily for other activities like watershed development, livelihoods support and housing – also enhanced their ability to develop community groups/SHGs to prepare them for linkage with banks. To this extent SDC's support promoted livelihoods finance both from the supply side (with NABARD supporting the banks) and the demand side (with NGOs enabling community groups to become credit worthy clients.

1.2.1 Self help promotion by the Mysore Resettlement and Development Agency (MYRADA)

MYRADA is a Bangalore based voluntary agency which was supported by SDC in its watershed development initiative under the PIDOW 'Participative Integrated Development of Watersheds' project. The project was a joint effort of three agencies – Government of Karnataka, MYRADA and SDC. The project happened as a result of an assistance request of the GoI to the Government of Switzerland in May 1992.

PIDOW aimed at the development of replicable land-use improvement in semi-arid areas of rural Karnataka. The guiding principles for the approach of development is the participation of the concerned population and an integrated approach to problem analysis, planning and execution. The goal of the project was to develop a replicable strategy for participative, integrated and sustained development/rehabilitation of small watersheds in semi-arid areas with due concern for the interests of the poor and underprivileged.

The second phase of the project focussed on supporting farmers and village communities in their own efforts to improve their livelihoods in semi-arid rural areas. This included the promotion and empowerment of self help groups that were linked to banks for obtaining livelihood finance. The third and fourth phases of the project tested a replicable strategy for participative, integrated, sustainable development/rehabilitation of small watersheds in semi-arid areas laying special emphasis on the interest of the weaker sections of rural communities such as small and marginal farmers, landless and women – incorporating community action through self help groups facilitated by bank finance.

MYRADA was responsible for organising people's participation for planning, implementation and follow-up of watershed activities. The main task was to build watershed management associations and similar institutions in the concerned communities, to promote awareness for watershed development and sustainable management and to conduct trials and pilot implementation in key areas of watershed development. These groups were linked to banks to facilitate the availability of finance for their watershed development and livelihood activities.

1.2.2 SHGs as financially viable community institutions through Outreach

The overall goal of the SDC-Outreach collaboration is to contribute to poverty reduction in selected pockets of semi-arid areas of Andhra Pradesh, Karnataka and Tamil Nadu (states) through supporting and facilitating processes to empower socially and economically self-reliant community groups, with the objective of securing their livelihoods.

Phase 1 of the project, "Participatory natural resources management and rural livelihoods development in drought prone areas of Andhra Pradesh" had the four broad objectives of capacity building of project implementation agencies; capacity building of cluster associations; watershed plus activities and strategic support to Outreach.

Phase 2 of the project from August 2005 to July 2008 has a greater focus on institution building – including, in particular, development of SHGs as financially viable, community institutions – with the following objectives

- Develop and empower SHGs and cluster level organisations as sustainable grassroot organisations
- Facilitate and support community based organisations in their initiatives to secure sustainable livelihoods (rural finance linkages with banks through the NABARD programme are an important component of such initiatives) and
- Strengthen the capacities of Outreach to become more efficient and effective in supporting grassroots organisations.

1.2.3 Community mobilisation by The Watershed Organisation Trust

WOTR was established in Ahmednagar, Maharashtra as a specific response to the need for community mobilisation to combat drought. WOTR was born out of a conviction that the poor can come out of poverty if the responsibility for this is primarily theirs.

The goal of SDC's institutional partnership with WOTR is to support the latter in achieving their vision of empowering people in rainfed areas to secure livelihoods and the quality of life through more efficient and sustainable management of resources. WOTR takes up the roles of a resource agency, direct implementer, networker, linkage builder, advocate as well as of a policy influencer and dialogue partner depending upon the context and requirements.

Institutional partnership with WOTR means supporting the organisation and its activities as a whole. This provides flexibility to WOTR to focus on sustainable changes as against activity-driven approaches. This helps WOTR to define and develop its own plans based on long-term strategies. In the interaction with WOTR, SDC focuses on issues like overall effectiveness, main orientation, broad strategies, direction and approaches, HID, organisational growth, issues related to networking, sharing, capacity building and knowledge management.

The institutional partnership focuses on self-help and self-determination of women and men at the community level. It places emphasis on local self-government bodies and other groups such as SHGs, user groups, producer cooperatives and affinity groups and, through them, on the enhancement of productivity of the natural resource base to ensure food, income and livelihood security. Access to resources (water) is seen here as a route to bring about systemic changes. As networker and linkage builder WOTR has played an important role in developing people's institutions and linking these to banks through the NABARD promoted bank-linkage programme. SDC's support has been instrumental in this.

1.3 Innovative Finance for the Poor – Micro- and small enterprise development and advocacy to promote such programmes

This programme developed as a natural progression in the thinking within SDC that led to a growing interest in non-farm sector activities in the late 1980s and early 1990s when artisanal promotion and training as well as refinance of non-farm sector activities started to be included in the NB programme. This was strengthened after the completion, in the mid-1990s, of the Vijay Mahajan group's Non-Farm Sector study (later published as a book, "The Forgotten Sector").

1.3.1 Micro- and small enterprise development by the Small Industries Development Bank of India

The collaboration between SDC and the Small Industries Development Bank of India (SIDBI) was the first attempt to follow a more diverse strategy in the field of rural finance for achieving SDC's goal of "creating sustainable income and employment opportunities in small and micro-enterprises in rural and semi-urban areas".[2] The <u>first phase</u> of the collaboration for the promotion of small scale enterprises was operationalised in 1993. It was envisaged that the SDC-SIDBI collaboration would complement that with NABARD by supporting and strengthening SIDBI's assistance for formal small scale enterprises. **Annex 1.2** provides a summary of the SDC-SIDBI collaboration.

The first phase was followed by <u>second</u> and <u>third phases</u> that focussed on marketing and skill enhancement. The marketing phase helped to strengthen SIDBI's newly created Marketing Finance and Development Department (MFDD) in order to widen the institution's experience in supporting market promotion activities. The third phase (that ran simultaneously with the second to begin with) was similar to the first except that it incorporated an enhanced emphasis on poverty reduction and entailed the strengthening of skill-based programmes both for small industries and for SIDBI's own managers as well as the launching of the Rural Industries Programme (RIP).

Promotion and Development (P&D) activities undertaken by SIDBI during this period can be broadly classified into

---

[2] SDC Country Programme for India 1996-2003.

Enterprise promotion: Rural Industries Programme (RIP) – mentoring of entrepreneurs (by support agencies) and linking them with banks – and Entrepreneurship Development Programme (EDP) – aimed at the creation of micro/small enterprises in rural India by harnessing local entrepreneurial talent.

Enterprise strengthening: Cluster Development Programme (CDP), Small Industries Management Programmes (SIMAP), Skill-cum-Technology Upgradation Programme (STUP), Marketing Assistance and Seminars/Workshops – focussed on meeting the diverse needs of enterprise clusters and developing a cadre of industrial managers for assisting SMEs, skills of SME managers and market linkages.

SIDBI and SDC also agreed to contribute Rs500 lakh to a Micro Venture Innovation Fund (MVIF) of the National Innovation Foundation (NIF) of Ahmedabad from Phase 3 of the SDC-SIDBI partnership. SDC made a contribution of Rs10.0 million and SIDBI of Rs40.0 million. This fund is jointly managed by NIF and SIDBI on mutually agreed terms and conditions.

In this cooperative endeavour of GoI and the Government of Switzerland, the responsibility of SIDBI was to carry out project implementation to support small scale entrepreneurs to generate employment and sustainable livelihoods preferably in small and medium towns through its P&D activities. SDC's role was mainly that of a donor/mentor by making available agreed grants for project implementation and also providing short-term consultancies to support SIDBI's monitoring requirements. The project was guided and supervised by a Joint Project Committee (JPC) comprising representatives from key departments of SIDBI and SDC. The JPC was responsible for deciding upon general guidelines and policies of the project in addition to approval of the working programme and budgets.

1.3.2 Micro-enterprise promotion and advocacy by the BASIX group of companies

The partnership with BASIX started officially in 1997 but discussions with the promoters of the BASIX group of companies commenced much earlier, around 1995. BASIX was established as an alternative to money lenders, on the one hand, and the existing traditional government-owned public commercial banks, on the other. The context and principles on which BASIX was established were

(i) The formal rural financial institutions (RFIs) had, to a large extent, failed to address the financial needs of the majority of the rural poor
(ii) The rural poor and SMEs are bankable in terms of savings mobilisation, payment of cost-covering interest rates and repayment of advances provided they receive adequate business support services
(iii) It is possible to run an RFI that simultaneously provides high access to clients and is financially sustainable
(iv) It is crucial for successful rural banking to reduce the RFI's own transaction costs as well as those of customers through innovative alternative structures and intermediary institutions such as input-traders, NGOs, self help groups (SHGs) and agro-business companies.

BASIX is based on the concept of "learning by doing" and SDC's objective in supporting the group has been to "allow experimentation and the gradual substitution of development by commercial funds". In promoting BASIX as an alternative financial institution, SDC's aim was to push the frontier of formal banking into the informal arena for the rural poor. This is an arena that was hitherto dominated by the rural moneylender and was characterised by (often) exorbitant conditions. This partnership was expected to yield experiences in the field of alternative banking that would have national importance. It was expected that over a period of five years "acceptable and sufficient mainstream resources [would] become available to BASIX when the idea of profit-making social banking [was] seen to be working." The support of SDC (along with the Ford Foundation) would allow BASIX enough scope and time to demonstrate its viability and build trust with clients and potential Indian equity financiers.

This was done initially (in the first phase) through

(a) A concessional loan of CHF2,500,000 to BASICS Limited – the holding company of the group – to enable it to purchase equity in and make loans to its subsidiaries.

(b) A technical assistance grant of CHF500,000 to BASICS' not-for-profit subsidiary, Indian Grameen Services (IGS), for human and institutional development and for intermediary partners such as SHGs and informal producer groups; for monitoring and analysing the progress of key aspects of implementation and learning, and for programmes of interaction with other innovative rural finance institutions, conferences and other events to exchange experiences and learn from one another, to conduct studies and support consultancies.

(c) Backstopping by SDC as well as consultants appointed by SDC to facilitate regular learning and for evaluation at the end of the first four-year phase.

This support was followed by a second phase of support for an expansion of the above activities to other parts of India and for additional testing and experimentation. This expansion was funded on an on-going basis through the provision to IGS of a grant for a corpus fund of CHF1,500,000 so as to yield a disposable return of CHF75,000 per year while preserving the value of the corpus through inflation safeguard enhancements from the earnings of the fund. The specific activities at this stage were

- Detailed study of potential areas (for expansion), adaptation of products/channels of service delivery to meet the requirements of those areas and for undertaking pilot lending
- Arrangement of technical assistance and support services to clients of BASIX up to a time when financial and non-financial services were well integrated and ready to be taken over by the operating financial company of BASIX – Bhartiya Samruddhi Finance Ltd.
- Support to other NGOs working in the area of livelihood opportunities.

In the third phase, currently in progress (until September 2008) further support of CHF2.98 million was committed for the purpose of overcoming "the dilemma between the need for growth and a pro-poor outreach, and continue its focus on innovating better financial products and services for the rural poor, thereby also influencing policy." The funding to IGS entailed

- Innovation: Development of new products and revenue models for its Livelihood Financial Services (credit, savings, insurance) as well as for its extension services and institutional development services – now being called the Livelihoods Triad.
- Capacity Building: Strengthening of BASIX's human resource base to enable it to deliver services more efficiently to the poor.
- Networking and Policy Work: Building a network of practitioners engaged in livelihood promotion to identify, collect and disseminate best practices in the microfinance sector.

The third phase support would provide BASIX with the space to continue concentrating on innovations while consolidating its commercial operations organisationally and financially to meet the challenge of emerging regulatory and market conditions. The third phase would provide SDC's programme with coherence in the rural finance and employment themes since BASIX "is both an activity based organisation as well as a leading policy player."

1.4 Policy support and advocacy

1.4.1 Sa-Dhan – The association of community development finance institutions

Sa-Dhan is one of the key institutions engaged in the field of rural finance in India. It is an industry association formed in New Delhi in 1999. It represents over 100 of the larger microfinance institutions in India and articulates issues of poor people's access to financial services and of the sustainability of institutions providing microfinance services. An important part of its activities is engagement in a policy dialogue with the relevant policy making sections of the Government of India. Sa-Dhan's activities are organised around the three strategic topics of policy advocacy, capacity building and performance standards.
SDC supported Sa-Dhan in its initial years (1999-2001) with a small action grant (for capacity building, standards and policy dialogue) and maintained regular interaction with it thereafter. After 2001, SDC and Sa-Dhan continued their interaction without any monetary implications, but with mixed results. Following its strategy review in 2004, Sa-Dhan requested SDC to enter into a longer term collaboration to assist in implementing its programme through strengthened interaction. The new partnership between Sa-Dhan and SDC is institutional with a core contribution amounting to 30% of Sa-Dhan's annual budget. Other sources of finance, besides income from membership services are the Ford Foundation, USAID and an increasing number of Indian funders. A summary of the renewed collaboration is presented in **Annex 1.3**.

1.4.2 ACCESS Development Services

This collaboration seeks to address the need for a credible platform for advocacy on behalf of the microfinance sector. The collaboration brings together all stakeholders in the sector to discuss and address issues arising from the growth pangs of the sector ranging from fast growth, new delivery models and interest shown by private sector banks to emerging new complexities and controversies in the sector.

<u>Microfinance India</u> is a step taken by CARE India, towards developing such a platform where various stakeholders can come together to discuss critical issues faced by the microfinance sector. The first Microfinance India (MF India) conference was organised in February 2004, followed by a second conference in April 2005 and the third in October 2006. In early 2006, MF India was transferred to ACCESS Development Services (ADS), a Section 25 Company promoted by CARE India as part of CASHE's exit strategy. SDC India wanted to support this model neutral initiative as a way of consolidating its work in microfinance. It believes the initiative will establish a national body that will help build capacity for the sector and add value to the diversity which already exists, by doing new work to help the microfinance sector to grow.

SDC is providing 20% (Rs5.7 million = CHF152,000) of MF India's two year budget, as it wants also to build the organisation's human and institutional capacities to deal with the ever growing demand for capacity building in the sector.

The key activities to be undertaken under the Microfinance India Project, apart from organising annual conferences include

- Publishing the annual 'State of the Sector' report which will be a comprehensive document to trace the growth of the sector in all its dimensions from year to year

- Support state visioning for microfinance, by working with the one or two identified state governments each year to develop a 'State Vision' document for microfinance.
- Organising retreats/roundtables on key issues facing the sector
- Instituting a national, long-term SHG sample survey
- Developing the MF India website as a knowledge hub for the sector

SDC's role is to provide inputs to the conference structure, annual sector reports and structuring of other activities of MF India.

1.4.3 Policy support to rural finance reform in India – The World Bank

The process of rural finance reform in India was initiated in 1994 and it has continued with important policy changes like interest rate deregulation, increase of banks' credit and investment autonomy, introduction of private local area banks, recapitalisation of NABARD and RRBs. The (RFRP) entails a broadening and intensification of these reforms with the support of the World Bank. Project identification and preparation missions were carried out in March-April 1996 and December 1996-January 1997 respectively, followed by several high level discussions.

This reform includes RRBs and selected commercial banks, NABARD as well as alternative rural financial institutions. It aims at strengthening a client responsive system mainly for the underserved rural poor/MSEs, improve the system's financial/institutional viability and promote a conducive framework for rural finance. Measures of HID of the financial institutions form the central piece of these reforms. The rationale for SDC involvement is two-fold (i) capitalise as policy partner on its long-standing experiences with regard to rural finance and MSE promotion and (ii) continue to learn in a vibrant sector of crucial importance in an environment where concerns for financial performance often take precedence over the needs of the disadvantaged sections of society.

The partnership in rural finance reforms that was developed between WB and the concerned Indian authorities required the capacity of the WB to deliver a variety of advisory services at short notice. This included expert advice on operational guidelines for the Local Area Banks or regulation and supervision of the rural financial system. The demand for these services was expected to intensify and to continue also during the implementation of the project. New areas include risk management, loan securitisation, legal and administrative improvements in loan recovery in keeping with a more responsive, intensive and flexible approach to the dialogue on rural finance reforms. The World Bank revised and enlarged its budget for preparatory and advisory functions to cover a period of three years which was complementary to the initial phase of the reform project. After a slow start, the fund helped the World Bank to support small flexible programmes including the reform of India Post (the erstwhile postal department), the launching of crop insurance through the newly formed Agricultural Insurance Corporation and current advisory and capacity building support being provided to district cooperative banks by BASIX.

Section Two

Main achievements/value addition

– a pivotal role in rural finance

The discussion in **Section 1** shows the pivotal role played by SDC India in furthering the agenda of rural finance and non-farm livelihood activities for promoting employment and incomes of low income and disadvantaged groups of the population. The rural finance programme of SDC has significant achievements in re-orienting NABARD, as an institution, towards the inclusion of NFS activities in its programmes. NFS was a very new and important idea 25 years ago when it was first supported by SDC. The facilitation of microfinance on a large scale through the support of its early experiments and those of the NGO MYRADA, with the SHG-bank linkage programme is another important achievement. The collaboration made a huge difference to NABARD's approach to development and its focus on disadvantaged sections of the population has even been characterised by the apex bank's senior officers as enabling "reforms with a human face".

Similarly, SDC India encouraged the early experiments of SIDBI with its wholesale lending programme for MFIs. This turned out to be the testing ground for SIDBI's major programme of lending and capacity building support for MFIs in India. SDC's support for SIDBI's programme for establishing and promoting micro-enterprises was also instrumental in enabling the design of much larger support for the development of enterprise clusters, currently in progress.

Finally, in enabling advocacy efforts for microfinance and policy support for rural finance, the programme has played a part in advancing the policy debate in India to a level where a new micro-finance law is currently being considered and the rural finance reform process is well advanced. This section covers the achievements of SDC's partners in the rural finance programme in India in relation to the four major activity areas described in the **Introduction** to this report.

2.1 Non-farm sector, micro- and small enterprises

Inclusion of Non Farm Sector (NFS) as a development function in NABARD's programme

According to a NABARD representative, one of the main reasons for the setting up of NB was the development of an integrated approach to rural finance. The RBI Act of 1934 had provided a "development function" for the bank, but it became diluted because of "the mix up of financing, development, regulatory and supervisory functions."[3] The NABARD Act widened the definition of the rural Sector to include not only agriculture but the Rural Non-Farm Sector (RNFS) as well, especially for its investment credit needs.

The initiative to include cottage industry and rural artisans in the SDC-funded programme came from NB. The topic of NFS was brought up with SDC after the World Bank had refused to include it in the discussions for the fourth credit line for the Agricultural Refinance Development Corporation (ARDC/NB IV). It was first discussed in this programme as part of the second credit line from SDC in 1982 and was included in the third credit line that

[3] According to a former Deputy Governor of the Reserve Bank of India, quoted by Godbole, Bal K and Imhasly, Bernhard in "Banking on Twenty Years of Partnership: Review of the Cooperation between NABARD and SDC", May 1998. Much of the discussion in this sub-section is based on content of that report.

commenced in July 1983. Apart from small farmers, small scale industry and artisans were mentioned as beneficiaries for the first time. Henceforth, all Swiss grants for refinance would specify the earmarking of a portion to non-agricultural activities. This helped SDC also to develop its own identity as a partner (distinct from the World Bank with which SDC had been collaborating earlier) and was generally approved of by the Swiss Government.[4]

The first SDC-appointed Advisor to NB, under this programme, stated that supporting NB in building up its NFS profile was the most important contribution in SDC's relationship with NB. He regarded SDC's catalytic role in the NFS orientation of NB as an important contribution that SDC was able to make partly because it was also ready to contribute to the main agricultural lending activity of NB. As reported by senior NABARD officers during discussions for the present review, SDC's support was instrumental in establishing NB's NFS programmes as part of the bank's operations and in orienting its management and staff's thinking in that direction.

<u>Positive impact of the SDC collaboration on the promotional activities of SIDBI</u>

The SDC-SIDBI collaboration resulted in the gradual evolution of the promotional programme in SIDBI and led to an upscaling of activities both in terms of content and geographical outreach. The SIDBI management is of the opinion that SDC support was beneficial in enhancing the momentum of its promotional programmes. The collaboration with SDC also enabled the bank to work with more than 300 intermediaries at the national level which tremendously increased the reach of its promotional activities. The SDC linkage provided SIDBI with access to international best practice on account of SDC's transnational experiences as also on account of the HID component which enabled the exposure of SIDBI's senior managers to international best practices and training programmes on small enterprise activities. SIDBI's engagement with innovative programmes like rating of MFIs, rating of SSI units and the financing of micro-ventures are all strongly attributed to the collaboration of the bank with SDC.

Emerging from SIDBI's increased engagement in promotional programmes for small and micro-enterprises, the collaboration also led to the creation of two departments in the bank – one for marketing finance and development and the other for venture capital finance of enterprises that support the development and growth of small enterprises. The creation of these two departments turned out to be the first step in mainstreaming these product types in the SIDBI system.
The collaboration enabled SIDBI to take risks and learn from the Marketing Finance and Development Department (MFDD) initiative. It resulted in the financing of market promotion becoming an integral part of SIDBI's main lending activities with no further need for any special impetus for the inclusion of such components in SIDBI's normal lending programme for small enterprises. With the mainstreaming of marketing finance in SIDBI's services, the MFDD was closed down in 2004. In the meantime, the venture capital finance department resulted in SIDBI Venture Capital being floated as an independent company and has, since, become a successful venture in its own right.

In addition, the action research project led to an innovative programme, the Mutual Credit Guarantee Fund (MCGF). The idea of the MCGF was conceived by a joint SDC-SIDBI team while on an exposure visit to Italy to study operations of clusters of small enterprises. This was modified to Indian conditions and implemented on an experimental basis in the hand-block printing clusters of Sanganer and Bagru in Jaipur. Its success there enabled its replication in the coir and rubber clusters of Kerala and the adoption of the model by UNIDO as an instrument in the clusters where they were working. It was later formally adopted by the Government of India

[4] As is apparent from the observation of the Swiss Federal Audit Office mission of September 1986. The mission noted "the desirability of rendering the Swiss contribution more identifiable than in the past"

which entered into an MoU with the Government of Italy to replicate it in SME clusters all over India and the highly successful Credit Guarantee Trust for Small Industries (CGTSI) was born.

Rural Industries Programme (RIP)

SIDBI considers RIP to be the best programme undertaken by the Promotion and Development (P&D) Department under the SDC-SIDBI collaboration. The programme (see Section 1.3.1) started with an experiment in one district of Andhra Pradesh which spread to 75 districts across India. This led to the promotion of some 25,000 units, generation of employment for around 100,000 people and in the development of the capacities of at least 25-30 intermediary organisations engaged in the promotion of micro-enterprises. SIDBI has continued this programme even after the withdrawal of SDC in 2004. RIP became such a large programme because of the encouragement it received from SDC to scale up its efforts.

Other achievements of the P&D programme include

- The training of around 4,300 managers for providing support to the SSI sector through 148 training programmes – Small Industries Management Appreciation Programme (SIMAP)
- About 13,000 micro-enterprise owners/managers trained through 677 deliveries of technology improvement programmes (STUPs)
- Creation of a Trade Fair Complex in Coimbatore (for Rs80 million with contributions of Rs2.5 million from SDC and Rs77.5 million from SIDBI). This is now the leading trade fair complex in southern India and has created a lasting impact in small industries promotion in that region.

BASIX and the Livelihoods Triad

Unlike SDC's support to large public sector development banks like NABARD and SIDBI, its early support to BASIX can be seen more as a "venture grant" intended to seed a professional institution with a long term vision that was attractive and congruent with its own objectives. Thus, SDC was happy to support the livelihoods support strategy of BASIX without, initially having any idea what it would lead to; simply working with the management, enabling it to work out solutions on strategic issues.

BASIX's Livelihood Triad strategy combines agricultural and business development support services as well as institutional development services with micro-credit. The Livelihood Triad is based on the perception that while micro-credit alone is useful for more enterprising low income families based in economically dynamic areas, there are others in backward regions who need a range of support services such as input supply, training, technical assistance and market linkages. Often, in order to be effective in supporting very small enterprises these services need to be provided through self-help groups, cooperatives or producer companies. Since 1996, BASIX has acquired extensive experience of such support services with activities like

- Input supply, extension, cost saving pest control and irrigation measures as well as buy-back arrangements for farmer-borrowers in crops such as cotton hybrid seed, sunflower seed, groundnut, pulses and vegetables
- Credit and extension support to farmers who received borewell irrigation under a government programme
- Enterprise support services such as input supply, inter-borrower skill exchange and market linkages for non-farm borrowers in activities like bakery, woodwork, repairs and grocery store keeping.

The number of such customers now exceeds 50,000 in some 10-12 economic sub-sectors. BASIX expects to cover some 33% of its clients through such services in the near future.

Institutional development services (IDS) have picked up much more slowly. Nevertheless, over the years, BASIX has promoted some 700 SHGs and worked with another 1,500 SHGs, 1,000 common interest groups, 100 SHG federations and 40 NGOs as part of the programme of building the capacity of these groups to support the livelihoods of their members. More recently, as part of the Livelihood Triad, BASIX has supported producer organisations in developing their service delivery systems and linkages with other organisations. Cotton farmers in some 35 villages have been formed into cooperatives while about 150 inactive dairy cooperatives have been revived. Large apex agencies such as three state-level Rural Livelihoods Projects and Women's Development Programmes in two states have also been supported in developing their livelihoods strategies.

In the matter of leadership, like most NGOs and private companies, BASIX depends on the dynamism and vitality of a few individuals. It has started on a conscious policy of building second and third tier leadership in its organisation and has attracted high calibre finance and management professionals from the corporate sector to lead its group companies. BASIX also places strong emphasis on the professional development of its staff. The high morale and commitment of its staff is a strong asset for the future of the organisation.

SDC support to BASIX and the Triad strategy has enabled this work to take place though funding has also been sourced by BASIX directly from large national development projects and from other supporters, especially The Ford Foundation. As articulated by BASIX's Chairman, of the two main supporters of the company, SDC has been the senior partner in the promotion of livelihoods while The Ford Foundation has taken the lead in supporting the development and expansion of its work in financial services.

2.2 Microfinance services

<u>The SHG linkage programme</u>

The reform climate of the early 1990s also provided the necessary environment to NB to pursue more vigorously an experiment – SHG linkage – which it had accompanied and promoted since the mid-1980s. At this time, MYRADA – a Bangalore based NGO – had received encouragement from NB's regional office when it set-up 'Credit Management Groups' among very poor people who were constantly on the brink of falling into the debt trap. NB's board was initially against such support, but due to the persistence of NB's staff and SDC's willingness to provide funds for this experiment, the opposition was broken. MYRADA was able to experiment further with the help of small grants from NB and, in 1989, rural banks were associated formally with the programme by offering courses to Branch Managers on working with SHGs. In 1991, NB took up the first large SHG-linkage pilot project involving some 500 SHGs. RBI, probably for the first time in the history of the central bank, issued guidelines which specified informal groups to be assisted by the formal banking system in extending loans and accepting deposits.

This pilot project earned NB, the appreciation of the voluntary sector as being pro-active in reaching the poor. SDC had remained absent in the early development of the SHG concept, but its loose earmarking of promotional funds enabled these to be used to good effect to support the programme nonetheless. However, as soon as MYRADA started its large experiment with the Kaveri Grameen Bank, SDC became more fully involved through its partnerships with both NB and MYRADA. Though SDC did not play a major role historically in the build-up of SHGs, their commitment to the concept has been a major source of support to NB and its support to institutions like MYRADA, Outreach and WOTR had an important enabling effect.

The goal of this innovative programme of NB was not only to provide access to institutional credit but also to encourage thrift and savings and help tackle the challenge of rural employment and income generation for low income families. In collaboration with NGOs and other voluntary agencies, and with support from the Credit & Financial Services Fund (CFSF) constituted under the NB-SDC partnership, the programme made progress, with over 14,000 linked groups by 31 March 1998. This was the start of a process that eventually enabled NB to realise its vision of promoting one million SHGs by 2005. The programme went on to become extremely successful with over 2.5 million SHGs formed and supported by March 2007.

<u>SIDBI Foundation for Micro Credit (SFMC)</u>

The establishment of SFMC and its success in supporting around 100 MFIs (and, through them, some 3.5 million low income families) in India can also be partly attributed to the SDC collaboration. SIDBI started its microfinance programme with the Informal Lending Scheme (ILS) (that was in place during 1994-98) for which 100% collateral was required and there was a cap of 15% on the interest rate that could be charged by on-lending MFIs. Though ILS was not successful, it provided SIDBI with a learning laboratory – an insight into the functioning of the microfinance sector. This experience helped SIDBI to design the Micro Credit Scheme and other schemes (including capacity building grants for MFIs) that have now led to the successful operations of SFMC.

<u>Innovative microfinance by BASIX</u>

From its inception, till the end of March 2007, BASIX had disbursed the equivalent of CHF190 million in loans to rural households in 45 districts of 8 states of India. They had some 350,000 clients (49% of them women) in mid-2007 with 97.5% performing assets and 55% of loans to the rural non-farm sector. The institution's model for delivering financial services to the rural poor is innovative in coupling business developments services with credit. This enables its customers to use the credit more productively. BASIX also invests in rural infrastructure to help improve market access for their clients and to ensure that local resources are invested locally and not siphoned off to urban environments – as happens with the rural banking system.

BASIX has experimented with financial market mechanisms before other MFIs. It was the first to raise money for operations from foreign capital markets, to securitise its financial exposure with a commercial bank and to experiment with various forms of equity holdings. It also used a variety of legal forms – private company, non-profit organisation and local area bank – to deliver financial services to the poor. While financial services are delivered by for-profit companies – a Non-Bank Finance Company (as classified by the Reserve Bank of India) and a Local Area Bank (LAB) – innovations, action research and pilot testing are undertaken by a not-for-profit subsidiary, Indian Grameen Services, registered under Section 25 of the Companies Act. In addition, BASIX's LAB has achieved operational efficiency in terms of profits and a high credit-deposit ratio. Its innovations with joint liability groups for micro-enterprise borrowers and weather insurance for farmers are now being mainstreamed. Numerous institutions (around 100 microfinance NGOs and cooperatives) have been supported by BASIX with institutional development assistance.

2.3 Human and institutional development

As NB went along with its refinancing function, institutional development became much more important and was given special focus from the early 1990s. SDC played a significant catalytic role in this through its partnership and support. The specific initiatives pursued by NB included, most importantly, the institutional strengthening of rural banks.

In 1993-94 NB launched a programme to strengthen and, where necessary, rehabilitate Regional Rural Banks (RRBs) and Cooperative Banks (Land Development Banks & District Central Cooperative Banks) and RRBs. This was prompted by the general deterioration in the institutional and financial capacities of its partner lending institutions (PLIs), which was further compounded by the wholesale waiver of agricultural loan repayments under a GOI sponsored scheme of loan waivers in 1989.[5] The programme for undertaking an Organisational Development Initiative (ODI) with the rural banks – Regional Rural Banks (RRBs) and state and district cooperative banks (CBs) – supported the initial efforts at restructuring these banks (after the launch of India's economic reform programme in the early 1990s). The initial phase of the ODI – undertaken with 49 of the 196 RRBs in India – was reported to have helped to improve employees' attitudes and work culture in the RRBs.[6]

The ODI intervention ran in tandem with an internal training programme for NB's own staff. However, this was initially limited through haphazard application to training programmes and exposure visits without a clear strategy. With the advent of the support to BIRD and the National Bank Staff College by SDC, this programme became much more strategic. The mere existence of BIRD had an effect; "It is amazing", a consultant familiar with both institutions is reported to have said, "but these NB managers are different persons once they join BIRD." Members of the institution not only exhibited a sense of ownership and identity, but the hierarchical patterns of the parent institution gave way to behaviour typical of a flat organisation resulting in an uncharacteristically free exchange of words and ideas at all levels from the Director downwards. The mix of practical experience and scientific inputs necessitated by being in the situation of imparting training resulted in positive cross-fertilisation of benefit to both faculty and managers of rural and commercial banks who came there for training.

The human and institutional development (HID) programme for NB managers resulted in a series of training programmes and exposure visits both in India and abroad, that enabled and encouraged NABARD managers to focus on both NFS and microfinance activities. This contributed to both the confidence and skill levels of NABARD's managers. Reportedly this included the adoption of Goal Oriented Programme Planning (GOPP) for the district level NFS promotion programme DRIP and of objective oriented monitoring of other programmes. Indeed, when in 2002, for the first time in its institutional history, NABARD raised resources from the Indian public by offering Capital Gains bonds, NABARD staff in Mumbai and regional offices did the entire design and management of this exercise in-house, without involving any outside intermediary or consultant. NABARD acknowledges that capacities for undertaking such exercises were built through the HID partnership. Overall, NABARD managers report that the experience of working with SDC resulted in a significant transfer of technical knowledge and experience to the apex bank and turned it into a learning organisation.

---

[5] This is widely regarded as a populist measure introduced by the incumbent government in connection with the national election in 1989.

[6] Study by COSMODE, a respected institutional development consultancy group. However, there is no clear correlation between the ODI treated institutions and the improvement in financial performance and profitability of the RRBs. See Malcolm Harper's "The Organisation Development Initiative – A Case Study of Institutional Reform and the Role of a Donor"

SIDBI too made good use of the SDC collaboration in developing the capacities of its own staff. The SIDBI staff were sent on

* In-house programmes
* Domestic programmes organised by independent capacity building agencies, such as institutes of management, to which SIDBI sent nominated participants, and
* International programme – mostly for senior officials.

This input proved to be very useful in terms of skill improvement and exposure of staff to international experiences. As a result such training has become institutionalised within SIDBI and been continued with its own funds and other resources. The frequency of such programmes has not diminished since the completion of the SDC collaboration in March 2004. Now everyone in SIDBI receives at least one week's training every year.

2.4 Advocacy

Apart from its innovative work with livelihoods programmes, BASIX has also had a significant influence in the policy and advocacy field as a founding member of the microfinance network, Sa-Dhan, and with its senior personnel on various state and central government committees and panels related to rural finance and development. The institutions advised on microfinance policy issues include NABARD, Reserve Bank of India, the Prime Minister's Office and the Ministry of Finance. BASIX is an active partner of various international development organisations, microfinance initiatives and commercial banks.

This has complemented and supported the work undertaken in this field by Sa-Dhan and Microfinance India, both organisations created specifically for the purpose of providing advocacy support to the microfinance sector in India and supported partially by SDC. The annual conferences of both Sa-Dhan (in January each year) and Microfinance India (now in October) have become established as key forums for discussion and debate on policy and other issues affecting the microfinance sector. While the work of Sa-Dhan has been instrumental in bringing microfinance policy issues into the realm of the mainstream policy debate, Microfinance India has served to provide an alternative forum to focus the debate and keep it active. Each complements the other in drawing in policy makers and exposing them to the findings of microfinance research and to interaction with specialist thinkers within the micro- and rural finance sector. The current fever pitch in the debate on the proposed new microfinance law is largely attributable to the efforts of Sa-Dhan. Microfinance India activities have complemented Sa-Dhan's efforts as have those of BASIX and of other leading Sa-Dhan member organisations.

It is because of its concern to influence the debate about rural finance policies at all levels that SDC has made the effort to ensure that it is represented also on the policy making organs of major international development finance institutions such as the World Bank and the Asian Development Bank and of development finance support institutions such as CGAP, Shorecap, Women's World Banking and the United Nations. This has, for instance, enabled SDC to give its comments on and to influence thinking in relation to programmes like the ADB and World Bank support to the cooperative reform programme in India.

2.5 Recycling of donor funds

One of the greatest achievements of the programme has been the adoption of an innovative approach to the re-utilisation of donor funds by its implementing partner, in this case, NABARD. From the start of the programme in 1979 until 1993, Swiss funds were being provided to NABARD by the Ministry of Finance as zero cost loans. These funds were on-lent by NABARD to the banking system at concessional rates of interest and were repaid by the banks as their own retail loans were repaid by borrowers. In theory, these repaid funds at NABARD were to be returned to the Government of India. In practice, it was always understood that these could be re-used by NABARD for promotional purposes but the legal position remained unclear and the latter continued to recycle the money awaiting agreement with SDC on its final disposition. By 1993, a substantial sum of money (around CHF150 mio) had accumulated when the decision was taken to stop merely recycling it but to consider the possibility of an alternative disposal.

After nearly two years of negotiations on this matter, an understanding was finally reached that the Government of India's loan to NABARD would be converted into a grant and that the latter would recycle the money through the creation of two fund mechanisms

- The Rural Promotion Corpus Fund (RPCF) for the promotion of non-farm sector activities, and the
- Credit and Financial Services Fund (CFSF) for the promotion of microfinance, in particular the programme for linking self help groups (SHGs) to the banking system, better known as the SHG-bank linkage programme.

The Memorandums of Understanding for the creation of these funds were signed finally at the end of March 1995.

The role of SDC in these funds was defined not in terms of fund operation, which was limited to NABARD, but in the overall steering of the activity and in being part of the process of learning from the exercise to contribute to the overall promotion of credit for livelihoods activities. As explained by a SDC Staff Officer formerly based at the SDC Delhi office,

"Through the establishment of these funds – and SDC's involvement in steering over the many years – an additional avenue was opened to SDC to be active in rural development and finance. All this without a single fresh CHF – an approach of innovative debt release that Switzerland had started with its 700 years jubilee in 1991!"

In continuation of this process, the mainstreaming of these activities within NABARD's operations[7] and the allocation of budgetary support by the Government of India for NFS and SHG activities resulted in a decline in the need for these Funds – from the early 2000s. Emerging from this, further negotiations were undertaken in 2004-05 and in September 2005 an MoU was concluding for merging the funds and forming a single Rural Innovations Fund (RIF). The purpose of this latter fund was the promotion of innovations in the non-farm and microfinance sectors and is discussed further in **Section 4**.

[7] To the extent where income from NFS lending is now reported to be the single largest segment of NABARD's income.

Section Three

Major challenges

– programme diversification at "due deliberate speed"

3.1 The choice of partners and SDC's manpower constraint

SDC documents on the rural finance programme emphasise the lack of manpower resources as a limitation on the activities that the India coordination office could support. This constraint was apparently felt both in the context of the number and variety of institutions SDC could work with and in relation to the extent to which it could provide intellectual and advisory support to the programmes of its partners. It was – and remains – a key variable in the process of identification of SDC partners and projects.

By implication, this was an important factor in the choice of NABARD as its lead partner in India. NABARD is the leading – and by far the largest – institution in the country charged with the promotion of livelihood activities in rural India and, in a sense, it was natural for SDC to work with it. The use by NABARD of a wide network of rural banks through which credit could be made available to poor farmers seemed a guarantee of a quick resource flow to those most in need of it, with relatively few interventions necessary from SDC's coordination office. The presence of a large partner institution lessened the burden of monitoring resource utilisation, especially since (at least initially) it was linked to the World Bank.

However, as the discussion in **Section 1** shows, NABARD has been SDC's dominant partner in the rural finance programme over the past 30 years. Indeed, during the first half of this period NABARD was virtually the only partner with a small component in SDC's partnership with MYRADA enabling some of its early work with SHGs in linking them with the banking system. It is from the mid-1990s, that the programme became institutionally more varied with the advent of SIDBI and BASIX as partners.

Even the advent of SIDBI and BASIX as partners posed an important challenge. Before these relationships were established there was discussion with some commercial banks in the early 1990s – including State Bank of India and Canara Bank – about the possibility of their engagement in a programme for more intensive lending to disadvantaged groups. According to the Swiss Staff Officer at SDC Delhi at the time, there was extensive ideological debate within SDC on the issue of working with for-profit institutions and on the question of commitment to established partners. While SDC saw the need to diversify its partnerships, the Government of India's plan to undertake gradual privatisation of the commercial banks raised a concern about their likely long term commitment to disadvantaged groups. Similarly, there was apprehension that SDC's commitment to NABARD would be diluted by a partnership with the large commercial banks. As a result the commercial bank discussions were dropped.

SIDBI, on the other hand, was more acceptable in an ideological context as a development bank that was less likely to be privatised, which was thought to be more business-like and which matched SDC's idea of innovation much better than did NABARD. For SIDBI, the SDC collaboration helped to overcome the challenge posed by public sector decision making systems that are geared to the prudent deployment of funds and have the effect of discouraging innovation. External support of the kind provided by SDC helped to hasten decision making and – according to a senior SIDBI manager – "provided the encouragement to go [for development programmes] in a big way."

BASIX's experience in this context is also interesting. The possibility of this partnership arose at a time when SDC was becoming disenchanted with the slow pace of progress in the NABARD programme. Yet, it took SDC a long time (nearly two years) to decide on going ahead with the partnership. The programme needed to be fitted into SDC's global strategy in a system-wide context of providing support to disadvantaged groups. However, once the partnership was established, BASIX found SDC to be a very supportive and steadfast partner. As BASIX's Chairman says, "There is nothing fickle about SDC's support. SDC comes with a written script and their support is constant. It is a cutely idealistic approach of promoting European style social change in institutions."

The extension of the agenda to other NGOs supporting the linkage programme and support to advocacy programmes has been an addition that occurred in recent years and certainly provides the overall effort with a more holistic appearance. Whether or not this is a case of "too little, too late" and whether the NABARD-centric nature of the programme over such an extended period of time was justified is a moot point.

3.2 Monitoring and project management

The second review of the SDC-NABARD collaboration comments that "as happens so often in institutional marriages, both partners had <u>no clear idea</u>, and even less a clear strategy when they chose each other."[8] It was initially thought by SDC that annual review missions from Berne combined with the regular appraisals conducted by the World Bank would be sufficient as a supervisory mechanism. However, the latter soon disappeared with the breakdown in NABARD's relationship with the World Bank in the early 1980s.

This gap was only filled in 1986 with the appointment of a Swiss consultant as a "NABARD Advisor" with specific responsibility for managing the relationship. However, NABARD resisted the location of the Advisor in Bombay and his ultimate location in Bangalore proved eventually to be a limitation due to difficulties in the three-way flow of communication with both NABARD Bombay and SDC Delhi. The second NB Advisor (1991) had to deal with 125 projects and their poor performance forced him to turn his attention to the two implementing institutions – NABARD and SDC. He diagnosed weak project management on both sides, admitting that he himself was hardly a specialist who could evaluate the commercial and technical implications of many promotional schemes.

Eventually, this led to the frustration that prompted his departure and the work was reallocated to the Delhi office with a locally recruited Programme Officer under the aegis of a Swiss Staff Officer. This arrangement appears to have worked reasonably and the performance of the Programme Officers has been appreciated both by NABARD and former SDC staff officers. SDC, however, did not attempt to use consultants to provide specialist inputs to the regular operations or monitoring of the programme so that, for instance, it was left to the Swiss Federal Audit Office to raise questions on financial matters. SDC did commission a number of special studies by consultants – usually established research institutes – with mixed results. While a consultant's work on the development of SDC's Sector Policy on Small and Micro-Enterprise was described as a disaster at the time,[9] the work of Vijay Mahajan's team on employment opportunities in the Rural Non-Farm Sector (RNFS) has been praised as a landmark effort.

8 Godbole & Imhasly, 1998 page 22.
9 See Godbole & Imhasly, page 24.

In the SIDBI partnership, a Programme Officer undertook the monitoring through a Joint Project Committee of the two institutions. On the other hand, SDC's appointment of two consultants for overseeing the cluster development programmes was, in SIDBI's view, not so successful or useful to either SDC or SIDBI as the consultants gave a lot of importance to nitty-gritty issues. For example, the consultants attempted to promote the use of detailed monitoring formats that SIDBI's officers found too onerous and also advocated the recruitment of officials for each cluster which the rigidities of SIDBI's public sector system for the sanctioning of positions could not respond to. The monitoring of BASIX worked a lot better on account of the partner's professional orientation. BASIX's institution of a regular (combined) quarterly review process for all its funding partners and other interested observers greatly facilitated this process.

3.3 Staff and capacity building issues

The promotional activities undertaken for the strengthening of delivery institutions in the NABARD programme lacked a strategic approach by both NABARD and SDC. Because of this it was mostly NABARD officers (and sometimes representatives of banks, RBI and Ministry of Finance) who attended training courses, seminars and conferences in India and abroad. Given the lack of a conceptual and procedural framework for these courses the initiative of attending them and choosing participants rested with NABARD. Also, given the attractiveness of such programmes, the selection criterion soon became seniority rather than functional fit or merit.

For SIDBI, it was the availability of trained staff to follow-up on P&D programmes as well as guide the intermediaries that was one of the major challenges. Though third party monitoring by contracted institutions forming Regional Development Centres mitigated the challenge to some extent, this approach was not sustainable from a resource perspective and had to be withdrawn after SDC support to SIDBI ended in 2004.

SIDBI also thought of developing a cadre of 25-30 officials for managing its Promotion and Development (P&D) activities but this perspective of P&D specialists was not very popular with SIDBI's officers and there was always a tug-of-war in terms of the staff and time allocated to the commercial and P&D schemes by the branches. Overall, the average officer had a negative view of such work from a career perspective since P&D work was regarded as peripheral to the mainstream activity of the bank.

3.4 The government/voluntary sector ethos

In terms of the dominant economic philosophy, at the beginning of the SDC-NABARD partnership, in the late 1970s, and in the 1980s, Indian development thinking was still in the grip of the ideology that has been termed Nehruvian socialism. This philosophy consciously arrogated the "commanding heights of the economy" to the public (government) sector. At this time, it was inevitable that there would be a belief that another large public sector institution, NABARD, would help to transform the dynamics of rural development in India. To this extent, SDC had an appropriate belief that it needed to work with NABARD in order to have a significant and lasting impact on rural finance in favour of its target group of the disadvantaged population. However, it will have been apparent from the start that the government sector comes with its own limitations incorporating rigid sets of rules and related management thinking and work culture that would be ponderous to move and slow to change. And so it proved. Thus, it is not surprising that the review of the programme in 1992, was quite critical of the programme, citing the poor functioning of credit delivery, lack of supervision and inefficient management practices.

While NB has provided SDC a participatory role on the national platform, SDC had brought to NB conceptual inputs and a focus on key aspects of targets and methods (quality of lending). On the downside, their weaknesses seemed to compound each other: both institutions lacked a strategy, leading to an unfocussed disbursement of funds by NB which was not corrected by SDC. This happened despite the fact that NB had brought a policy paper in 1990 which had already then talked of 'schematic lending' and lending for 'pre-identified purposes'.

During Phase 5 of the SDC-NABARD partnership, both agencies shifted their vocabulary away from the exclusive talk of 'cottage' and 'tiny industries' and 'artisans' to include entrepreneurs. However, resistance to target market-driven actors and institutions as potential intermediaries remained. The promotional programmes involved, apart from IRDP functionaries, voluntary organisations who suddenly saw themselves plunged into the business of creating enterprises and entrepreneurs. Their philosophical make-up was voluntarist and anti-market, and this prevented the successful implementation of the programme. But rather than slowing down promotional efforts or concentrating on a few promising experiments, NABARD and SDC went ahead expanding them. This resulted in leaving the crucial marketing aspect aside. Voluntarism was also evident in SIDBI's RIP programme as some of the institutions engaged in the activity had a voluntary rather than a commercial orientation and tended to focus on playing the numbers game for obtaining programme incentives whether or not they were genuinely helping to create lasting rural enterprises with the value chain support structures necessary for the purpose.

3.5 Livelihood promotion activities through BASIX

BASIX's activities for promoting livelihoods through its Triad of financial services, business development services and institutional development have faced a number of challenges:

Competition: The financial products and services developed by BASIX for the microenterprises and SHGs supported by them were rapidly replicated by others in the microfinance sector. While this had a beneficial impact on overall lending to the poor in India and established BASIX's leadership in the sector, it also undermined the institution's ability to recover the costs incurred on product development and to sustain new research and development activities.

Regulations: BASIX has been unable to transform into a full fledged bank on account of banking sector regulations. In practical terms, this severely restricts financial sustainability as it effectively raises the cost of funds available to it and also limits its ability to cross-subsidise microfinance through high value services provided to larger customers who would become available to the institution as a bank. Practically, mobilising deposits is only possible for BASIX in the three districts where it is licensed to operate a local area bank.

SDC's corpus fund provided to BASIX under Phase 2 of the cooperation registered falling interest earnings over time on account of a pattern of decreasing interest rates in the economy as a whole during the period from 2001 onwards. In addition, BASIX did not earn enough surplus from its operations to invest in its experimentation and innovations in livelihoods finance. The organisation's ability to raise financial resources for its commercial operations was also constrained by a complex legal situation vis-à-vis foreign equity holdings in the financial sector. Thus, the BASIX management found it difficult to raise reasonable amounts of equity from foreign sources while maintaining management control and ensuring that the institution did not face the problem of drift from its mission of providing innovative financial and livelihood services to its target group of rural, low income families.

Both because of the lack of adequate surplus from its operations and because of the legal restraints to raising equity from foreign sources, in 2004 BASIX requested additional support from SDC, by when, according to the initial projections, it should already have become a fully sustainable organisation. SDC's third phase of support to BASIX (starting in early 2005) was its response to this request.

Support services: BASIX has not concentrated merely on financial growth but on growth through developing new products and services which are targeted at the poor. It has underlined the need for providing 'livelihood services/business development services' to the poor to enable them to utilise their loans more productively and thus become better customers in the future. This concept integrates microfinance with business development and institutional development services. Here, BASIX has faced the dilemma of either growing fast, by underplaying livelihood services, in order to become financially sustainable quickly or to concentrate on "social issues", investing in the development of new products and services for the poor, thereby reaching out to the unmet financial needs of the rural poor. During the middle of the current decade, BASIX slowed its growth as an institution in order to establish and stabilise its Livelihood Triad strategy but has resumed a more rapid growth path since 2006.

3.6 Policy support and advocacy

When the earlier contribution of US$400,000 from Swiss Special Studies Trust Fund was made, to the World Bank's efforts at policy support it was envisaged that it would finance discrete project preparation activities (along with financing from other sources). These activities were expected to be sequential – studies, recommendations, project finalisation and approval. What actually happened (during the late 1990s) was less sequential. During the preparatory process, important reforms were already taking place even though the WB project had not been finalised and approved. Many of these reform measures were opportunistic, involving actions by the central bank and Ministry of Finance when political conditions were favourable. To this extent, the objectives of the fund were somewhat undermined though the studies financed still made a contribution to the design of the emerging and evolving rural finance reform programme.

In the area of advocacy, the challenge faced by SDC's partners has been to overcome the ingrained tendency of the mainstream financial sector to regard matters of micro- and rural finance as peripheral to the main business of providing loans to large enterprises and urban consumers for modern economic activities. Both the micro-size and the informal end-use of credit and other financial services deployed in micro- and rural finance immediately reduces the level of interest taken by policy makers and senior bankers. Over time, however, the efforts of SDC's partners, and some of the other leading members of Sa-Dhan, has resulted in the whittling down of this resistance. Nevertheless, the tendency, albeit sub-conscious, to belittle the importance of the microfinance sector as a contributor to the fundamental performance of the national economy is strong. It is manifest in the whittling down of the new microfinance Bill to a secondary piece of legislation that looks more like a sop to the voluntary sector than a concerted effort to regularise and integrate microfinance with the organised segments of the national economy. There is still a long way to go…

Section Four

Lessons learnt

– the luxury of failure facilitates a job well done

4.1 Development strategy and the relationship with partners – *SDC is seen as a collaborative rather than a dominating donor and this has fostered a genuine sense of partnership in the programme; being a "small" donor is likely to have facilitated this "achievement"*

The cooperation between SDC and NB's predecessor institution, the Agricultural Refinance Development Corporation (ARDC) of RBI, began in the late 1970s. At that time the dominant development paradigm – poverty alleviation through massive state intervention – was still largely unquestioned. In the case of India it was part of the official ideology of nation building and the creation of NB itself can be seen as an expression of the will of the state to intervene more forcefully with directed and subsidised credit to the rural poor. In the case of Switzerland this perspective was much less in evidence, and not part of the state ideology, which has always been market-oriented. But, it was the dominant viewpoint of the institutions dealing with Development Cooperation. The Swiss Law on Development Cooperation of 1976 laid great stress on assistance to the poor, who were left out by market forces (represented by the social evil of moneylenders). Therefore, SDC not only shared ARDC's viewpoint that subsidised credit was necessary to cut out the moneylenders but also felt that it was an efficient and direct way to allocate financial resources to the poor. However, both failed to take into account that academic discourse – such as that led by the Ohio School – was already questioning these assumptions.

Both SDC and NB knew very little about NFS which dealt with high-risk customers and was a difficult sector to develop. The World Bank was also unhappy about credit recovery and measures taken to improve it. SDC had itself realised that all was not well. Within a year of signing the first refinance agreement it noted that the disbursement rate of credit to farmers was slack and that the share of poorer states and poor farmers in credit allocation was far below expectations. However, SDC Delhi, in spite of extreme dissatisfaction of the World Bank about overdues and its likelihood of pulling out of the project, opted to follow an independent path from other donors and further develop its relationship with NB.

Though the report of Forster and Pareek (1993) had been fairly critical of the relationship in a number of ways, NB accepted all criticism but took strong exception to the assertion that the cooperation between NB and SDC constituted the usual donor-recipient relationship in international development cooperation. Both NB and SDC staff agreed that this was not true, that SDC never acted in this spirit and that NB was not a typical recipient either. SDC has, of course, been a committed and continuous partner through the thirty years. It has been a partnership that has, in a number of cases, crossed the boundaries of professional interactions and has given rise to personal friendships.[10] In its relationship with SIDBI too, SDC's role as an advisor as well as a funder is well appreciated.

These relationships exist/existed despite the fact that SDC's contribution was never more than a small proportion of the resources of the two public sector institutions. Godbole and Imhasly (1998) suggest in relation to NB, that "this disproportion may be one reason for the absence of a donor-recipient relationship". SDC funds enabled NB to venture into new areas that

[10] Including stories of discussions over games of table tennis at the homes of SDC staff, rare in the annals of international development "cooperation".

conservative Boards would not otherwise have allowed them to cover and the interaction with SDC germinated ideas that the compulsions of day-to-day operations would not have allowed time for. Both institutions see SDC as a major partner who encouraged them to go in areas where apex institutions normally do not go – the poor, the NGOs, employment issues, training and support services. The unconventional nature of the relationship also created the environment that enabled these institutions to start to see their own relationships with NGO/ private sector institutions as partnerships and to regard the low income families that were the ultimate object of these activities, also as partners rather than beneficiaries. There is no doubt that SDC's approach to its development partnerships in India is something that other donors could learn from.

The SIDBI programme instituted much later (in 1993) did not undergo quite as much turmoil or learning as the NABARD programme. SIDBI management accepts nevertheless that some mistakes were made – particularly in terms of the diversity of the activities undertaken under the programme – but this was very much part of the learning process. SIDBI managers were keen to continue the collaboration when it was stopped in 2004 but were hampered by the equivocation of its top management and the concern of the nationalist-oriented government at the time to reduce the dependency implied in the acceptance of foreign assistance from large numbers of bilateral donors.

4.2 Monitoring issues – *it worked well to have Indian programme officers, to establish a joint review mechanism and for the large partners to outsource some parts of their monitoring needs*

It soon became apparent in the NB-SDC partnership that SDC's assumption that 'by giving this money to NB we were reaching the poor' was somewhat hasty. Whatever the motive for its independent course vis-à-vis the World Bank, it could not overlook the Bank's apprehensions about poor credit management. In May 1984 SDC Delhi wrote to Berne that 'we consider a close monitoring to be a precondition for any other involvement with NB'. This led to the idea of appointing a specialist/consultant who would have to be a member of SDC-India, stationed in Bombay, Delhi or Bangalore as NABARD Advisor. Ultimately, the compromises that resulted in these arrangements did not prove to be sustainable and SDC had to revert to direct monitoring. Undertaking this by inducting capable Indian programme officers with the guidance of Swiss desk officers proved to be the most effective arrangement.

As discussed in the previous section, SIDBI too felt that the Joint Project Committee meetings were very useful in providing direction to the P&D programmes. There was a lot of information sharing between SDC and SIDBI and SDC was able to bring their experiences from other Asian and African countries, as well as their knowledge of small enterprise clusters in Europe, on what worked there and what did not. Such experiences contributed immensely to the design of the implemented programmes – the design of the Mutual Credit Guarantee Fund being one example of this.

At the next level – the relationship between the apex bank and its implementation partners – in the context of its lean manpower structure, SIDBI's recognition of the prime importance of oversight led to the conceptualisation of a mechanism of third-party monitoring through Regional Development Centres (RDCs). RDC was an attempt to outsource monitoring activities by engaging experienced agencies in the development field. In addition to monitoring, RDCs provided management support to the implementing agencies for their programmes.

As reported by SIDBI, the outsourcing of monitoring services appeared to be a successful strategy as it resulted in the identification of a number of new implementing agencies, resource organisations and venture ideas. In addition, RDCs prepared state industrialisation plans and undertook sub-sector studies. Though there were some constraints to RDC functioning as well as in the acceptance of RDCs as monitoring agencies by the implementing partners, the overall system worked well. With some fine-tuning, the concept of third-party monitoring could be replicated by other promotional organisations with staff constraints. Similarly, the experience of the informal lending scheme emphasised the value of independent appraisal of partners and led to SIDBI's support for the fledgling private rating agency that had just been established (in 1998) for the rating of MFIs.[11]

4.3 Reform of rural finance – *effective institutional reform needs continuous effort over an extended period of time; periodic independent studies of that effort could help to its improve design and enhance results*

The framework document prepared jointly by SDC and NABARD in New Delhi and Mumbai in June 1999 articulated a grand vision to improve access to financial services for the rural poor on a sustainable basis. The vision was to be accomplished by promoting effectiveness of key stakeholders of the rural finance system. NABARD and its associate institutions such as 196 RRBs and over 350 DCCBs, as well as other MFIs were to be the forefront for achieving this vision. The partnership was to facilitate change processes and accelerate internal learning both within NABARD and outside the NABARD system (RRBs, cooperatives and other institutions).

After the launch of the change process, however, it is surprising to note that a representative, independent study of the ODI initiative with the first 49 RRBs was not commissioned before the beginning of Phase 2 of the RRB reform. This would have allowed corrections and improvements in the design of the second phase with most of the rest of the RRBs and a few cooperative banks. The preliminary figures seemed to indicate that the exercise was a success but this was based on the qualitative and process oriented COSMODE study[12] and on the circumstantial evidence of the deregulation of interest rates and opening up of lending windows. However, the study by Malcolm Harper, undertaken much later, showed that there was no clear evidence that improvements in the operations of the ODI-treated RRBs were any better than those of the "untreated" banks.

Observations from the bank staff of RRBs and BIRD faculty seem to point to weaknesses of the ODI approach, which was in its design. The design did not include a continuous process of intervention and, therefore, the ODI would have little long term effect. It seems that just 1-2 in-house facilitators were trained to do this job, besides their regular work, but even then they could not perform their duties properly. For considering the huge branch network of a typical RRB of over 100 units, to do justice to such a job would have required the assignment of a full-time HRD officer or even a HRD cell at the bank but this was impossible given the government ordered freeze on new recruitments as part of the RRB reform process. There was a general overall weakness in the ODI, given the rigid and inflexible regulatory framework governing personnel there was little chance that the attitudinal changes brought about by the process would be sustained. Nevertheless, it is important to note that both studies (and another internal one by BIRD faculty) during the process, reported overwhelming appreciation of the ODI process by the bank staff themselves.

---

[11] M-CRIL, Micro-Credit Ratings International Limited based at Gurgaon (near Delhi).

[12] This study did not use a control group of non-ODI banks. COSMODE, 1999. "Report on Impact Evaluation of Organisation Development Initiative for Regional Rural Banks by Bankers Institute of Rural Development". Hyderabad.

4.4 Livelihoods promotion initiatives

4.4.1 Rural Innovations Fund – *operationalising venture capital initiatives through public sector institutions in developing countries can be a real challenge; SDC's appetite for risk is much greater than theirs*

A special component of the NB-SDC partnership, articulated in 1999, was promoting innovations, with the allocation of a separate budget. As discussed in **Section 2**, NB had constituted and was maintaining two funds – the Rural Promotion Corpus Fund (RPCF) and the Credit and Financial Services Fund (CFSF) – in terms of agreements entered into in 1995. In 2005, SDC and NB agreed to merge the two funds into a new fund by transferring the corpus of RPCF (including the closing balance of interest) in CFSF as on 30 September 2005. Thus, the CHF45 million, NB-SDC Rural Innovation Fund (RIF) came into being in October 2005 with the objective of promoting livelihood opportunities and employment creation in rural areas and facilitating access to finance and business promotion for the poor.

This fund entailed the re-leveraging of SDC support into a form that allows it to be understood more easily by non-NB stakeholders in the livelihood sphere. It was conceived as an instrument to try out innovations in the farm, non-farm and microfinance sectors of livelihood promotion with a potential for scaling up. The funds are to be used to capitalise on experiences of rural finance and livelihoods promotion, develop innovations and help disseminate the lessons among policy makers, sectoral players and the general public. It will document activities undertaken under its ambit, fund research and promote an exchange of ideas, knowledge and best practices amongst the stakeholders.

The Rural Innovation Fund (RIF) is a much for flexible instrument than has been used so far in the programme during the entire 30 year period of collaboration with NB. However, there are still concerns that the NB work culture of conservatism and discomfort with new ideas will serve to limit the scope of the fund's achievements. So far, this has entailed some negotiation on the question of what constitutes innovation versus how much should be used for ongoing programmes – that should, ideally, be funded out of NB's operational funds but which has been incorporated in the RIF agreement at NB's request. The RIF budget for Financial Year 2007-08 is illustrative; out of a total of CHF11 million requested by the implementing department for use during the year, over 50% has been allocated for existing promotional programmes and less than 35% being for "theme based innovative programmes." While the institution and operationalisation of such a fund at a public sector institution constitutes significant progress towards good practice, its appropriate utilisation remains a challenge.

4.4.2 Rural Industries Programme – a model for livelihoods promotion – *enterprise promotion needs follow up as well as start-up support and is most effective through a sub-sector and cluster-based approach*

The implementing agencies with whom interactions were undertaken during evaluation of the SDC-SIDBI Phase 3 collaboration, were of the opinion that RIP addresses the three issues of poverty alleviation, livelihood promotion and employment generation. The agencies felt that the programme has been effective for achieving the three objectives through enterprise promotion. The programme was found to have the flexibliity and the necessary open mandate in the selection of entrepreneurs. RIP thus emerged as a comprehensive programme for generating employment for the rural poor in industrially backward areas by establishing viable enterprises on technical considerations rather than through inducements in the form of grants/subsidies.

RIP has resulted in the promotion of more than 24,000 micro-enterprises at a cost to SIDBI per enterprise of only Rs5,100 (CHF160).[13] This suggests a very cost effective intervention. Each enterprise, on average, provided employment to 4.7 persons and resulted in an investment of Rs48,000 (CHF1,500). Around 59% of the beneficiaries are from socially vulnerable sections of society and 13% of the enterprises were promoted by women. The suggestions on possible improvements in programme design emerging from the evaluation include (i) more thrust on graduation of already set-up units (ii) improvements in follow-up with units after their establishment for support on marketing, technology or expansion plans and (iii) a sub-sector and cluster approach for enterprise promotion.

The implementing agencies also felt that RIP has helped them in a number of areas. It has enhanced their outreach in terms of geographical areas, entrepreneurs promoted and networking with other support institutions. As far as financial benefit is concerned, the agencies were of the opinion that the programme in the initial years may not break-even, but that it becomes sustainable over a longer period of time when the agencies are able to claim a higher performance fee.

4.4.3 Lessons from BASIX – *success in supporting development ventures carries its own consequences that cannot be predicted at the start; such success can impose its own costs*

The Indian financial sector is characterised by a fast changing legal and regulatory environment and the increasing pressure of global integration. Some of the larger banks active in India – ICICI Bank, in particular, but also others such as UTI Bank (now Axis Bank) and some foreign banks such as ABN Amro and Citibank – are looking to the rural financial market for adding to the growth of their businesses. While the foreign banks are not allowed to operate in rural India directly, the microfinance business offers them the opportunity to learn about rural financial markets while preparing for the day when financial liberalisation will enable them to participate more directly in the growth of the rural economy. The success of organisations such as BASIX in serving rural financial markets profitably has acted as a beacon for the interest taken by the more dynamic of the commercial banks.

The lesson BASIX's achievements for SDC is that there is a strong development dividend in supporting dynamic professionals to implement innovative ideas. Not only are other development finance institutions adopting various aspects of the BASIX model but the commercial banking sector is also able to learn about the issues and challenges of livelihoods finance from the achievements of the institution.

At the same time, SDC's experience in having to agree to a third phase of support to BASIX on account of its inability to generate sufficient surplus for innovation in the area of livelihoods promotion has its own lessons. For a financial institution, the lack of adequate surplus means either lack of efficiency or the inability (or unwillingness) to charge more for its financial services. Given BASIX's high degree of professionalism it can hardly be accused of lack of efficiency. Therefore, it is important to consider the issue of the interest rates charged. It is apparent that a higher interest rate, would be acceptable to BASIX's clients in relation to the 36% and more charged by moneylenders in Andhra Pradesh and northern Karnataka (its main areas of operation until 2004). However, as discussed in Section 3 (above), BASIX's freedom of operation was also constrained by the emergence of a significant degree of competition in its main operational areas. This competition resulted in its products being copied and constrained its ability to charge significantly higher rates of interest.

---

13 Based on an evaluation undertaken by India's National Institute of Rural Development (NIRD) in 2003.

In any case, in the prevailing political economy of India a Compartamos-style solution to the problem of resource generation would not be acceptable; BASIX would immediately have run into difficulties with the local authorities if it had attempted to raise its interest rates significantly. The events of 2006, when two other MFIs in Andhra Pradesh were directly targeted by local government officials on account of their loan collection practices, are a pointer to the likely results. It is apparent from this that success in SDC's efforts in supporting development ventures carries its own consequences that are not always predictable at the start. BASIX's failure to generate the necessary surplus occurred on account of its own success as an institution. That success helped to foster the competition that made it impossible to charge more.

4.5 Institutional development issues

4.5.1 Bankers Institute of Rural Development – *the nurturing of centres of excellence requires constant commitment; public sector institutions are not able to sustain that commitment through successive changes of leadership*

SDC support for BIRD can be termed to be one of the major successes of the NB-SDC collaboration. The injection of teaching methodologies and skills produced excellent results in the NB managers who constituted the faculty. As practitioners they were able to bring a mix of practical experience, and scientific inputs (necessitated by being thrown into a training situation) that resulted in a positive mix. Combined with the excellent and well-maintained physical infrastructure that was created for the purpose, BIRD represented a substantive up-grading of the importance of rural banking in the Indian financial sector. That process, in itself, will have provided banking trainees with a completely new perspective on the task (of reaching the rural poor) that they were asked to perform.

However, BIRD has not yet become the premier institution in rural development banking in developing countries that it has the potential to become. The advantages of staffing the institution with practitioners are great but to become a centre of excellence, BIRD needs a stronger scientific (theoretical and methodological) underpinning than it has received till now. For this it needs a judicious mix of professional academics and the NB managers who come and go as they complete their term at the institution and are required, by NB rules, to return to the bank's operations. The share of recruitments in the open market for the best application-oriented theoretical skills needs to increase. The institution needs to be able to add high quality research and consultancy capacity to its training offering in order to become an international centre of excellence. Above all, it needs to be treated as a serious professional institution for this purpose. The fact that it has not even had the privilege of the stable appointment of a full-time Director in recent years is most unfortunate in this context.

4.5.2 Human and institutional development – *institutional change in a large, public sector institution takes a while to seed and blossom; an effort is required to maintain the momentum; more dynamic, but smaller, private ventures are more successful but can also become victims of their that successs*

In the six years of the HID partnership, NABARD undertook a massive training and development programme for its 4,000-plus staff members. The concept of training and development was not new to NABARD but the HID partnership graduated from a somewhat haphazard approach to a more systematic identification of opportunities that were then integrated with organisational requirements and individual training needs. This was done for the first time through a participative process starting at the Regional Offices of NABARD and culminating in the designing and offering of training courses by the NABARD staff college located at Lucknow. The HID strategy consisted of several methodologies and mechanisms.

NABARD officers were trained within and outside India. Some of them were nominated for exposure visits to innovative projects in South Asian and other countries.

For NABARD, it was a constant challenge to harmonise the, at times, conflicting demands. The HID partnership emphasized focus on change in attitudes and behaviour. This has to be combined with the requirements of NB's operations that need the development of certain skills and the imparting of knowledge on issues such as regulation and supervision, rural banking and treasury management.

Some lessons learned during the five year implementation process were[14]

- Institutional change is gradual; it takes a while to seed, blossom and become practically useful.
- An effort is required to keep the momentum of change alive and vigorous.
- To be useful, attitudinal changes must be supported by hard technical skills.
- It is not easy to capture the impact of change since mere numbers may not serve the purpose. In any case, it is difficult clearly to attribute change specifically to the HID component.
- There are lessons to be learned in matters of project design and arrangements for implementation, and
- A determination of the actual cost of HID interventions.

At the same time, the growth of interest in BASIX operations has, in itself, become a threat to the group's operations. The rapid growth of large corporations inevitably affects smaller institutions. Thus, BASIX has been directly affected by staff attrition as better paid employment has become available at these large corporations. Similarly, a successful development of a potential model for engaging business correspondents in increasing the outreach of banking services and/or the successful deployment of information technology for reducing the cost of such services could provide these large banks with a comparative advantage that would be detrimental to the business interests of BASIX. While this could be damaging to the investors in BASIX, the growing interest of these banking corporations in the rural sector is essentially a tribute to the success of BASIX and other large MFIs in India in demonstrating the profitability of rural financial services. In the long run, the growing commercial pressure on BASIX's operations could even be transformed into additional financial success through the sale of its network of unit offices and client contacts to a corporation that wanted a widespread rural footprint in a short period of time.

There are potential opportunities in the developing situation that are presently difficult to predict. While there are threats to BASIX's operations, the group has proven in the past its ability to be flexible and innovative in meeting the challenges. SDC's contribution in helping it innovate has strengthened its position in the microfinance sector and has, thereby, been partly instrumental in generating additional interest in the provision of financial services in rural India. To the extent that this helps promote the availability of financial services for low income clients, this is a substantial tribute to the efficacy of the resources invested by SDC in supporting an institution like BASIX.

---

14 Based on "NABARD-SDC Partnership on Human and Institutional Development: Capitalisation of experiences of the 2000-2006 activities for RRBs, Cooperatives and NABARD" Prepared jointly by NABARD and SDC.

4.5.3 Human resource development for small industries – *high profile institutions may not take the interest necessary for this purpose; it is better to target second level institutions that see support for small industries as a means of improving their engagement with the local economy*

SIDBI undertook the Small Industries Management Appreciation Programmes (SIMAP) for creating a cadre of professionals to cater to the needs of small industries. The idea was that leading technical and management institutions in the country would provide practical management skills to those engaged in the operations of such units. SIDBI provided a corpus to a number of leading institutions in India to enable them to use the earnings from it to subsidise the courses undertaken by them. The programme did not work well; some institutions did not take an adequate interest in the training of small enterprise managers while others who did, simply found the corpus of CHF60-80,000 insufficient to provide an adequate subsidy to their courses. This was compounded by the fact that interest rates on deposits fell drastically over the 3-4 years after the corpus was provided around 2001, reducing further the effective subsidy available to the training institutions.

SIDBI realises in hindsight that the overall programme was not effective because of the targeting of upper level institutions like the Indian Institutes of Technology (IIT) where the interest in the unglamorous world of small industry was relatively limited. IITs at Kanpur and Chennai and the Administrative Staff College of India opted out while IIT Delhi continued because of the personal interest of the professor who was responsible for implementing SIMAP.

Smaller institutions like Regional Engineering College (REC), Kozikhode did well, however, and have institutionalised the programme. Now SIMAP is on the annual calendar for the REC with an annual placement of 60% of their trainees with active units. Similarly, a few others of the second rung institutions are running the programme regularly. Since the discontinuation of the SDC-SIDBI partnership, the follow-up of SIMAP implementing organisations by SIDBI has also not been significant which probably led to a loss of focus on the programme, particularly from the upper level institutions.

In conclusion

Its engagement with rural finance in India has seen SDC register some remarkable achievements through its support of

- NABARD's re-orientation away from purely agricultural lending towards the extensive inclusion of NFS programmes in its activities
- extensive innovation by SIDBI in its promotion of rural industries
- the phenomenally successful SHG-bank linkage programme promoted by NABARD and originally developed by MYRADA, another SDC partner
- the early experiments of SIDBI with the Informal Lending Scheme that enabled the design of the equally successful MFI support programme of the SIDBI Foundation for Micro Credit
- BASIX's innovative product development and livelihood promotion activities (along with other development funders) that have helped to demonstrate the possibilities for rural and micro-enterprise engagement by other banking and financial institutions
- the advocacy efforts of Sa-Dhan, BASIX and Microfinance India (along with other development funders) that have brought microfinance to the notice of government and led to the current debate on the appropriate nature of microfinance policy necessary to serve the needs of micro-clients in India.

That some of these successes were partial rather than complete is inevitable in working with huge institutions such as NABARD and SIDBI. That there were failures, inefficiencies and lessons to be learned during this thirty-year journey is not surprising. Overall SDC's legacy appears to be one of cooperative engagement with its partners rather than one of top-down financial assistance. Gratitude for the support given to partners is explicit, appreciation of the results of the programme is manifest and an eagerness to continue the cooperation (if possible) is widespread.

Thirty years of SDC's engagement with rural finance in India is a job well done!

Annex 1.1

The SDC-NABARD collaboration

Phase	Duration	SDC Contributions	Objective	Activities/components
1	Oct 1979 to June 1982	SDC contribution of CHF40 million Overall cost of the project estimated at CHF98.5 million (Rs492.5 million)	To support the uplift of the rural masses – SDC as a partner of World Bank/IDA assistance for refinancing farm loans by the Agricultural Refinance & Development Corporation (ARDC) Help raise the standard of living of small farmers by supporting the operations of ARDC	• **Comp A**: Financing of rural development operations in favour of small farmers through ARDC refinance • **Comp B**: Financing of studies aiming at increasing the socio-economic benefit of ARDC in the field of rural development. • **Comp C**: Financing of equipment, increasing the efficiency of ARDC in its general operations & training
2	Jul 1982 to Dec 1983	SDC contribution of CHF25 million – 50% of the amount refinanced by NB in Comp A and 100% of the total cost of Comp B & C. Overall cost of the project estimated at CHF59.5 million (Rs267.75 million)	Help raise the standard of living of small farmers and persons active in industries in the tiny and decentralised sector by supporting operations of NABARD.	• Same as above
3	Jul 1983 to Dec 1984	SDC: CHF30 million Overall project cost of CHF75 million (Rs337.5 million)	Same as above	• Financing of rural development operations in favour of small farmers & rural industries through NB refinance

Phase	Duration	SDC Contributions	Objective	Activities/components
4	Jul 1984 to June 1986	Overall project cost of CHF100 million (Rs460 million) SDC: CHF40 mio	Help raise the standard of living of the families participating in IRDP	• Financing of rural development operation in the context of the Integrated Rural Devt Programme of GoI
5	Jul 1987 to June 1993	CHF30 million (Component A) CHF10 million (Component B)	To help raise the standard of living of India's rural population by providing income and employment opportunities through credit and promotional measures in the non-farm sector Training of NB professional staff in the field of rural industrialisation as well as promotional activities	• NFS promotion, training and related promotional activities • **Comp A**: To support refinance operations for small scale industry and artisans in rural areas • **Comp B**: Promotional support to Rural Non Farm Sector (RNFS) including capacity building of client banks and NB staff Promotional activities (i) strengthening credit delivery (SHG linkage, bulk lending) (ii) developing entrepreneurs (TPCs, REDPs, market oriented training, training by master craftsmen) and (iii) support to promotional organisations (artisan guilds, training in marketing, DIC workshops, CFCs) (iv) area linked programmes (APRI, DRIP, Incubation Fund), and (v) studies & seminars.
6	Jan 1991 to Mar 1993	SDC: CHF35 million	To help raise the standard of living of India's rural population by providing income and employment opportunities through credit and promotional measures in the non-farm sector To promote refinance for RNFS activities	• Contribution to increasing non-farm sector lending activities and to the improvement of the quality of lending through - a line of finance for refinance of specified groups of non-farm sector loans - funding of promotional activities in the non-farm sector from the reimburse-ments by banks of refinance from NB • Swiss funds earmarked for promotional programmes & projects for the non-farm sector through NB-SDC Promotional Fund • NFS promotion, training and related activities. • Initiating micro-credit innovations – credit management groups of MYRADA

Phase	Duration	SDC Contributions	Objective	Activities/components
				• Promotional funds to support the SHG-Bank Linkage Progm • Creation of Rural Promotion Corpus Fund (RPCF) and Credit and Financial Services Fund (CFSF) out of the promotional funds with GoI – the former to continue promotional activities in RNFS and the latter to support credit linked promotional programmes including SHG-Bank Linkage Programme and the Farmers' Club
7	Oct 1995 to March 1999	Overall cost estimated at CHF4.86 million (Rs121.5 million) SDC: CHF4.45 million	Goal: To contribute to the alleviation of poverty by promoting income & employment generation through improved access of disadvantaged small and micro-entrepreneurs to credit and other financial services. Objective: (i) facilitate revamping of 49 RRBs by making them effective, innovative & financially strong for financial service delivery. (ii) strengthen BIRD's own capacities to cope with task of revamping RRBs and to turn it into a centre of excellence for rural bankers' training	Human resource development to deal with the competition from private and foreign banks by improving efficiency and financial viability of the Indian banking system • **Comp A**: RRB revamping through BIRD and the involvement of other institutions in this process. • **Comp B**: Organisational development of BIRD • **Comp C**: Strengthening of the National Bank Staff College (NBSC) through HID
8	Oct 1999 to Mar 2006	CHF10.5 million	HID partnership in rural finance – capacity building, training & organisational development	• Capacity building, attitudinal reorientation, skill development of staff; • ODIs with cooperative banks & NGOs, refreshers with RRBs • Also, RPCF and CFSF merged into the NB-SDC Rural Innovation Fund (RIF) in October 2005; RIF to promote innovations in farm, non-farm and micro-credit sectors with focus on the poor – to be fully utilised in 5 yrs.

Annex 1.2

The SDC-SIDBI collaboration

Phase	Duration	SDC Contributions	Objective	Activities
1	April 1993 to March 1996 (concluded in June 1996)	CHF3,345,000 grant Amounting to Rs70.2 million against a project cost of Rs79.4 million	Overall objective to support small scale entrepreneurs in their own efforts to generate employment and sustainable livelihoods in decentralised centres of population In the context of general objectives, the project shall concentrate on a set of developmental activities initiated by SIDBI in order to address areas of weaknesses of SSIs and to improve delivery of services by important support institutions like banks. SIDBI to collaborate with voluntary organisations, producers' associations, primary lending institutions and universities for implementation.	• Venture capital fund strategy development • Second line management training • Performance improvement programmes for managers • Training of officers of primary lending institutions • SIDBI staff training & development • Training in credit usage & credit delivery to women • Technology upgradation in selected clusters of industries • Support to marketing initiatives for small scale enterprises • Assistance to industry associations
2	April 1996 to March 2000	CHF2.05 million Total fund of Rs108.9 million available Rs45 million each from SDC and	Augmenting marketing fund	• Strengthening of MFDD • Marketing related development initiatives like participation of SMEs in International Trade Fair, Show Window for SME products, marketing/trade related publications

Phase	Duration	SDC Contributions	Objective	Activities
		SIDBI and unutilised portion of Rs18.9 million from Phase 1 (Marketing & Industry Organisation Fund)		
3	April 1996 to March 2004	CHF9.85 million Co-financed by SIDBI to the extent of CHF7.1 million (Rs213 million)	Poverty reduction by facilitating generation of sustainable employment and income opportunities through the promotion of small scale enterprises, mainly micro- and tiny ones Consolidation and diversification of gains derived through Phases 1 & 2. Stronger focus on gender concerns, environmental issues and energy conservation aspects	• SIMAP & STUP training programmes • Marketing fund software • Cluster technology upgradation • Human and institutional development • Rural industries programme • Action research

<u>Sources</u>
Agreement between Govt. of India and Govt. of Switzerland on collaboration programme between SDC and SIDBI for the promotion of small scale industries
SDC Credit proposals: Small scale industries promotion – Phases 1, 2 & 3
SIDBI-SDC collaboration (April 1993 to March 2004) - Highlights

Annex 1.3

SDC-BASIX collaboration

Phase	Duration	SDC Contributions	Objective	Activities
1	June 1997 to September 2008	Loan of CHF2,500,000 Technical assistance grant: CHF500,000 Backstopping by consultants: CHF100,000	Enable BASIX to experiment with and test its innovative banking approaches, different legal forms and alternative intermediary channels of retail banking	Loan to holding company to purchase equity in and make loans to its subsidiaries – enhancement of funds available for on-lending to low income retail clients Technical assistance for • human and institutional development and for intermediary partners such as SHGs and informal producer groups; • monitoring and analysing the progress of key aspects of implementation and learning, and • programmes of interaction with other innovative rural finance institutions, conferences and other events to exchange experiences and learn from one another, to conduct studies and support consultancies.
2	January 2001 to December 2005	Corpus grant: CHF1,500,000	Extension of the above objectives to other parts of India and for additional testing and experimentation	• Detailed study of potential areas (for expansion), adaptation of products/channels of service delivery to meet the requirements of those areas and for undertaking pilot lending • Arrangement of technical assistance and support services to clients of BASIX up to a time when financial and non-financial services were well integrated and ready to be taken over by the operating financial company of BASIX – Bhartiya Samruddhi Finance Ltd. • Support to other NGOs working in the area of livelihood opportunities

Phase	Duration	SDC Contributions	Objective	Activities
3	October 2005 – September 2008	Technical assistance grant: CHF2.91 million	Overcoming the dilemma between the need for growth and a pro-poor outreach, and enabling BASIX to continue its focus on innovating better financial products and services for the rural poor, thereby also influencing policy	• Innovation: Development of new products and revenue models for its Livelihood Financial Services (credit, savings, insurance) as well as for its extension services and institutional development services – now being called the Livelihoods Triad. • Capacity Building: Strengthening of BASIX's human resource base to enable it to deliver services more efficiently to the poor. • Networking and Policy Work: Building a network of practitioners engaged in livelihood promotion to identify, collect and disseminate best practices in the microfinance sector.

Annex 1.4

The SDC/Sa-Dhan collaboration

Phase	Duration	SDC Contributions	Objective	Activities
Phase 1	Jul 2005 to March 2008	CHF980,000 Programme costs: CHF950,000 and Consultants: CHF30,000 Amounts to roughly 30% of Sa-Dhan's overall budget	Overall goal of improving the access of the poor to financial services: Support to Sa-Dhan in achieving its long term vision of becoming a more effective policy advocacy organisation, an organisation that articulates and promotes the voices of the poor for accessing sustainable financial services in the form of safe savings, credit, insurance and other financial transactions.	The institutional partnership will allow both Sa-Dhan to reach their goal of improving the access of the poor to financial services: implementation of mid-term strategy by Sa-Dhan and enable SDC to leverage its core-contribution to request Sa-Dhan to achieve overall viability. * Broad themes are * Support to policy advocacy for stronger enabling environment * Facilitate practice of standards for sustainability * Support capacity building for improved sectoral performance * Resource centre – research, innovation and information dissemination * Sa-Dhan personnel and project administration expenses * Constituency building, partnership, governance and strategy

Annex 1.5

The World Bank – Rural finance reform advisory services

Project/ Duration	SDC Contributions	Objective	Activities
Rural Finance Reform (RFR) Advisory Services January 1997 to Feb 2006	CHF750,000 (US$1=1.5CHF) Total project cost of US$2.7 million. Other contributors include World Bank ($730,000), Japan (US$1,400,000) and Ford Foundation (US$70,000) Total cost of preparatory steps for the RFR was US$954,000 out of which SDC financed US$400,000.	Three main goals as outlined above	The WB project implementation team collaborated closely with the Indian authorities in • Providing operational support for implementing up-front policy changes such as introduction of local area banks or the review of regulation and supervision • Discussing and identifying alternative approaches to the RFR, carrying out various stakeholder and institutional analysis and defining two projects to support RFR including a discrete new component for NABARD • Elaborating on the policy and institutional components of a proposed project, including extensive institutional analysis for RRB restructuring being of high priority for India • Initiating local coordination among major players and developing a framework for donor coordination in rural finance.

Appendix 1

List of Persons Met

Name	Position	Organisation
Regis Avanthay	Head Global Issues and Sustainable Development Division, Berne former Deputy Coordinator, SDC Delhi	**SDC**
Teresa Khanna	Programme Officer	
Adrian Marti	Deputy Coordinator, SDC Delhi	
Rene Brugger	former NABARD Advisor	
Christoph Koepfli	former NABARD Advisor	
Richard Gerster	Director, Gerster Consulting	
Yashwant Thorat	Chairman	**NABARD**
KG Karmakar	Managing Director	
R Balakrishnan	Executive Director	
GS Menon	Chief General Manager	
A Ramanathan	Chief General Manager	
Venkatesh Tagat	Chief General Manager	
P Kotaiah	former Chairman	
YC Nanda	former Chairman	
SS Bharwani	former Executive Director	
Rakesh Rewari	Deputy Managing Director	**SIDBI**
A Vikraman	Chief General Manager	
NK Maini	Chief General Manager	
N Raman	Chief General Manager	
VS Rathore	Chief General Manager	
BK Bose	General Manager	
Shailendra Narayan	former Chairman	
Vijay Mahajan	Chairman	**BASIX**
Shankar Datta	Managing Director, IGS	
DSattaiah	Vice President, CHR & Insurance	
S Amarnath	Vice President, Ag BDS	
Rama Prabhakar	Vice President, IDS	
B Mohan Raj	Manager – Accounts & Finance	
Shishir Ranjan	Manager – Ag BDS	
Mathew Titus	Executive Director	**Sa-Dhan**