

Community Services Trust Salem
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Tamil Nadu, India

MICRO CREDIT

PROGRAM

PLAN AND PROPOSAL

***Aiming for
community development
and
empowerment***

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EXECUTIVE SUMMARY

Community Services Trust Salem serves the poor and neglected tribal, rural and urban slum populations in the Salem and Namakkal districts in Tamil Nadu, India. Through the opportunity to initiate the micro credit program, CST can realize economic empowerment and community development in the two districts among 150,000 of the poorest and most disadvantaged people below poverty line. The micro credit program will be built on the existing women empowerment program 'Mahalir Thittam', which developed and socially empowered 1750 self-reliant and sustainable Self Help Groups. In the first phase, a total reach of 20,000 poorest and most disadvantaged women has already been achieved, which can grow immensely during the program itself through attracting more poor women, forming and developing Self Help Groups.

Basically, "The micro credit program is by the women, for the women and of the women" and works directly with the community. The finance is used by the women for the creation of assets and their maintenance in farm, non-farm, traditional and non-traditional activities.

This micro credit program plan is based on the experience of the Grameen Bank, the credit guideline of TNCDW and a guideline designed by CGAP.

The credit service itself involves quick disbursement of small and short-term loans of Rs. 100,000 with very simple procedures for reviewing and approving loan applications. Only Rs. 90,000 are disbursed to the Self Help Group; Rs.5,000 are put in the risk fund and 5,000 are meant for the group fund to pay for additional training expenses. We account an interest rate of 20% and demand repayment in two years. Of the interest payment, 2% is assigned to the risk fund of the SHG, 5% to put into their group fund, 5% to pay the MFI interest rate and 8% to cover the project costs.

To initiate the project personnel as well as financial resources are required. Personnel resources are attracted locally. The employees at credit union level are even raised from the Self Help Groups themselves. This ensures real empowerment, better community linking and better need satisfaction. Hence, all thresholds and resistance by the poor women to request an economic self-employment opportunity are taken away.

The following summary presents the required personnel resources:

	Personnel resources	Amount	Main responsibilities
CST	Consultants (part-time)	5	Advising, Guiding, Monitoring, controlling Training, auditing and evaluating
	Project coordinator	1	Coordinating, organizing, administrating
	District coordinator	2	Coordinating, monitoring, reporting, audit
	Monitoring coordinator	9	Coordinating, monitoring, reporting
Credit Union	Block coordinator	9	Organizing, administrating
	Credit officers executives	18 54	Monitoring, guiding, auditing Monitoring, guiding, administrating

Financial resources from the Micro Finance Institution are required to cover loan applications. This financial commitment is requested for the duration of the whole program. Desirably, the start-up project costs are a grant. However, it is possible to be self-sufficient in all our project expenses. The main area of expenditure is on financial monitoring, crediting and guiding, which cover 72% of all costs (expenses of monitoring team and conveyance divided by total expenses). Project coordination expenses are 13% and rent/overhead only count for 15%. This shows that most project expenses immediately are for the benefit of the poor people: "money reaches the people".

Financial Budget shows that:

The total expenses for the start-up	Rs. 981,000	(\$20,900)	
Total ongoing costs	Rs. 372,000	(per month)	Rs. 1,464,000 (per year)
Break even	83 SHGs	(start-up is grant)	93 SHGs (with loan)
Total loan demanded	Rs 76,500,000	(\$1,630,090)	Rs 85,500,000 (\$1,822.000)

(85 SHG * 9 blocks * Rs.100,000) with 5 % interest rate (equal to inflation rate of India 2001) start-up = grant
 (95 SHG * 9 blocks * Rs. 100,000) with start-up costs taken as loan from the Micro Finance Institution.

The costs comprise all activity expenses regarding the project for CST headquarters (34%) and for the nine block credit unions (in total 66%). Continuously, 83 or 93 out of the present 150 to 250 Self Help Groups per block are needed to make the micro credit program self-sustainable. The 'Mahalir Thittam' project will form and develop more Self Help Groups in the coming years. As a result credit activities can be expanded every year.

In the fortunate position, profit is generated, this money will be used to support the existing development program Mahalir Thittam, on which the micro credit program is built. This program was only partially funded by government sources and for next year even no fund is available. To sustain the micro credit, the sustainability of the Mahalir Thittam project is critical: Self Help Groups must be formed and capacity build to make them ready for crediting.

PREFACE

Poverty is not created by the poor, it is created by the structures of society and policies pursued by society. Therefore, the poor must be given a helping hand in community empowerment and economic development to change this uneven structure.

CST views that a Micro Credit program is the best solution to relieve the burden of the very poor and neglected women in the Namakkal and Salem districts. It will be build on the women empowerment program Mahalir Thittam and builds further on realizing full development of women, economic and social empowerment and community development for those who need it most,

This report presents a plan of the micro credit program and a proposal for funding by presenting the financial resources needed for self-employment activities. We are aware of the limitations of Self-employment. However, it is the only solution to better the lives of those who are economically and socially suffering, and who are in now in the clutches of the money lenders. This micro credit program plan is based on the experience of the Grameen bank, use is made of the credit guideline, developed by TNCDW and a guideline, designed by CGAP.

As US first lady Hillary Clinton wrote (November 1995):

*"...It is called Micro,
but its impact on people is macro.
We have seen that it takes just a few dollars
to help women gain self-employment to lift her and her family out of poverty.
It is not a hand-out, It is a helping hand."*

Salem, 13.08.2001

Christelle Kapoen
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1. INTRODUCTION

Strategic Environment

In India, even today, the poor women are brought up to play a life-long role of sub-servience and self-effacement. These women, already overburdened with work - tired, malnourished and lacking child-care facilities - are often unable to better their positions themselves. The subordination of women socially and economically and the responsibility to care for their children and families without sufficient income and control over resources establishes the vicious circle these vulnerable women often meet. Especially in rural areas, where communication is lacking and the social and religious system is more apparent, this primitive way of living is standard for the poor and tribal women. Economic development and communication with the wider environment is low.

Needs Identification

What these women need most to enhance their life position is empowerment, education and access to money.

- Empowerment to take control over their own lives
- Education, self-development, knowledge and awareness
- Money to take self-employment opportunities to survive and prosper with their families and children

CST provides this opportunity

CST, serving the poor and tribal communities in the Namakkal and Salem districts in Tamil Nadu, already meets needs in empowerment and education by facilitating training, networking and peer support in various programs. The most important is the women Self-Help Group project Mahalir Thittam, which pursues capacity building and social empowerment for 1748 Self Help Groups with a total of 20,000 members. To let these women be adequately self-sustainable and to allow them to care for themselves and their families, more is needed: a self-employment opportunity.

Money lenders and banks resist in offering self-employment and self-sustainability for these women. Their loan policies and procedures make credit either inaccessible or highly unattractive to the poor women. However, a micro credit program, initiated by CST, can give this opportunity to the women. It is a widely proven anti-poverty tool. It will eventually become a reality. The women can struggle out of poverty, become self-sustainable and self-reliant. Eventually, they raise the standard of the whole community.

2. STRATEGY

Introduction

The purpose of CST is to serve the poor, neglected, and uncared for tribal, rural and urban slum populations in the Salem and Namakkal districts in Tamil Nadu, India. Service is accomplished through holistic development, which is culturally valuable, socially acceptable, ecologically sound and gender sensitive.

Mission

To realise economic empowerment through self-employment and community development in the Salem and Namakkal districts among 150,000 of the poorest and most disadvantaged people living below the poverty line.

Vision

To credit 1750 self-reliant and sustainable Self-Help Groups which are educated on self-employment through the women empowerment Mahalir Thittam program. To reach 20,000 of the poorest and most disadvantaged women, via cooperative financial institutions, which are set up by the women, of the women and for the women.

Core objectives

- Women empowerment, through increased access and control over resources, self-sustainability and self-reliance
- Community development and empowerment, through village development, environmental development, economic development and communal harmony

Goals

Women empowerment must be realized through:

1. Increased access and control over resources
 - Increased asset-base income, through access to inexpensive and timely credit
 - Increased access and control over resources at household level through income generating activities and access to credit
 - Control over income and better income management, through opening up new options and better capabilities
2. Self-Sustainability
 - Basic needs satisfaction
 - Reduced vulnerability to crisis: famine, flood, riots
 - Helping build a financially sound and sustainable future by getting out of the clutches of money lenders

3. Self-Reliance

- Change from worker status to worker-manager by putting control over their lives (incomes) in their own hands
- Through building capacity of women to handle administration and Self Help Group Affairs on their own
- Leadership development, business competence development and related trainings
- Financial self-reliance

Community Development through:

1. Economic development due to better economic status of families and communities
2. Village development and environment development through increased and active participation of women in local development and collective action
3. More room for education of women and children
4. Communal harmony and caste harmony as Self Help Groups consist of mixed caste, religion and social status

OPERATIONAL STRATEGY

The micro credit program consists of credit services for self-employment and a combination of related services and resources. The credit service involves quick disbursement of small and short-term loans with very simple procedures for reviewing and approving loan applications at commercial rates of interest in a convenient and user-friendly way. It involves clear recovery procedures and strategies, maintaining high-repayment rates. Finance is used for the creation of assets and their maintenance in farm, non-farm, traditional and non-traditional activities.

The additional services include training - i.e. entrepreneurial training and skill training - support in networking, marketing and peer support, and facilitation and initiation of programs: Awareness programs and Social Activity Programs. Further on, the current strong saving system shall be extended. Facilities to set up a strong saving system is provided.

Small loans and related services are provided to the most poor and neglected women, unionized via well-performing Self-Help Groups (SHGs), which have been formed and developed by the women empowerment program Mahalir Thittam. The micro credit program is built on the Mahalir Thittam project. It builds further on the goals of capacity building, social and economical empowerment. These women from the SHGs range in caste, social status, age and education. Special focus is on helping the women from Scheduled Castes, Scheduled Tribes and Most Backward Castes. Widows, divorcees and other vulnerable women are present in the SHGs and are thus given an opportunity for micro credit. The present non-educated people and illiterates will be supported in their credit administration tasks by other members or other of the SHGs and by the employees of the credit union.

Basically, "The micro credit program is by the women, for the women and of the women". The credit union is thus a part of the community and works directly with its community, which takes away all thresholds and resistance by the poor women to request an economic self-employment opportunity. Hence, this strategy realizes economic and social empowerment and better needs satisfaction. The poor women, managing the micro credit program, know the problems, needs and demands of the other poor women.

New clients are attracted in two ways. First, CST continues taking efforts in forming Self-Help Groups and makes the Self-Help Groups ready for crediting through providing training and programs. Secondly, poor women take the initiative themselves to form SHGs, and ask support from CST for building capacity and guide in empowerment, as they observe the benefits of empowerment and self-reliance from other poor women. The linking of the Mahalir Thittam project with the micro credit program ensures the synergy needed to establish long-lasting social and economic empowerment..

3. BROAD DEVELOPMENT PLAN FOR MICRO CREDIT

This chapter addresses four phases of the micro credit program, which are identified. First, these phases are shortly described. The first two phases are considered as most important and critical. The next two phases: (3) Continuous Lending and (4) Termination is built on the strategy, tasks and responsibilities of the second phase. These broad development plans are thus not that much different and at this point and not worth covering. Thus, for the first two phases, two broad development plans are designed and covered in the third and fourth paragraph. After describing the first two phases a paragraph is devoted to considerations and uncertainties, which are identified during the design of the micro credit program plan. The four most marked are discussed and countered.

Four Phases

From experience of the Director of CST, a 12-year program would be the most fortunate scenario. To assure real improvement in economic empowerment and community development, only a long-lasting program can make a difference. The identified four phases will thus cover 12 years and is allocated as follows:

1. Start-up phase, three months
2. First loan disbursements, two years
3. Continuous lending, from year 3 to 11
4. Termination, last year

Phase one is the start-up phase, lasting for three months. During this time, every involved stakeholder will be educated on the tasks and opportunities the micro credit program brings with.

Phase two is the program of lending, self-employment and repayment, elaborated for the next coming two years. After two years, the SHGs have completed their two-year repayment of loan and interest. When completed successfully, the SHG is graduated and in reach of a larger loan to employ activities with lending from the credit union. After at most six loan disbursements and/or 12 years of guiding, support and training, the SHGs are self-sustainable. Then, enough capacity is build to change their economic and social positions long-lasting. The strong savings program, group fund, and risk fund of the SHGs are then strong enough to employ themselves on small-scale in the activities which the credit union facilitated.

The third phase covers the time from year 2 till year 11. Only such a long-lasting program makes significant change to the lives of the empowered and self-reliant women and to community development. After 12 years, savings and a group fund must be self-sustainable and the SHGs themselves will employ their own credit union activities fully.

The termination phase, lasting for one year and called phase four, will then focus more towards making the SHGs self-sustainable and empowered to take over fully all financial activities the credit union once covered.

Each year, new Self Help Groups can be approved for the credit and related services. These Groups are made ready with training and savings programs from the Mahalir Thittam project. A continuous flow of support to more and more poor women safeguards the viability of the program and ensures a wide reach of people.

Phase 1: Micro Credit Start-up

To realize the goals and objectives of the micro credit program during this stage, certain critical activities must be conducted:

1. Establish a strong micro credit banking system and enhance savings program
2. Develop a strong plan and coordination system for initiating the project
3. Develop a strong monitoring system, so repayment and clear financial structure assured and guidance to SHG conducted.

Below, the activity of a strong banking system and the different roles of CST and the Credit Union are addressed. Except for financial and technical support for the banking system, the Micro Financial Institution does not have a big role and is thus not mentioned separately. Similarly, the SHGs do not play an important role, except of receiving training and conducting preparation activities to make themselves ready for crediting and self-employment.

Establishment of a strong banking system

A strong banking system is implemented in collaboration with the Micro Financial Institution, CST and Credit Unions. In short, the banking system consist of the following aspects:

- Loan is based on a clear repayment mechanism with equal weekly installments and interest rate of 20%
- A fixed amount of each loan is put in a risk fund. A part of the interest payment is saved for group fund and risk fund at SHG-level
- The whole group is responsible for repaying the loan. If a member defaulted, the whole group is marked.
- Books and registers are maintained by the groups themselves and monitored by the executives. This will ensure a transparent financial savings and credit and fund system
- In weekly meetings, members make repayments, deposits to saving accounts and discuss new loan requests and any other matter of interest at the credit union.

CST

CST appoints staff to the project in order to organize the program, prepare meetings, workshops and training. The Staff people of CST develop a financial reporting method and set up a strong financial monitoring method and system. Technical guidance, monitoring and management of credit unions are the responsibility of CST. CST facilitates self-employment support, training and supervision to credit unions and Self Help Groups.

Credit Unions

In all blocks credit unions are established to review and approve loan applications and delivery of credit. In each block, the Block coordinator and credit officers, acting as representatives of CST, monitor the credit union, advise and guide the organizational, provide management and administration. Hence, credit officers work together with the executives to develop a financial monitoring system to monitor and assure repayment of the SHG.

Accomplished achievements

When the start-up phase is completed. The following results must be realized:

1. The SHGs are educated on borrowing and financial bookkeeping and prepared to undertake self-employment activities
2. The credit union is prepared to conduct all financial and community development tasks: approving and delivering credit, monitoring financial activities, guiding SHGs and initiating related services.
3. CST has set up a robust micro credit program with a strong monitoring system, a clear financial reporting system, a thorough training program and guidance and consultative activities.

Phase Two: Micro Financing Activities

Introduction

In Phase two, the program plan and preparations are implemented. Crediting starts for the first approved SHGs. Each stakeholder in the program pursues their own activities and roles in this phase. Their responsibilities in the program differ heavily from the previous phase. For example, in phase one CST acts as the organizer, initiator and coordinator. In phase two, more emphasis is put on guidance, training and monitoring. The following roles are identified:

- The Micro Finance Institution supports the program financially with grants, loans and technical advice
- CST supports, guides and monitors the credit union and SHGs. It is totally responsible for the performance of the program.
- Credit unions are the financial intermediaries and provide credit, related activities, guidance and monitoring to the SHGs.
- Self Help Groups are the credit-borrowers and conduct self-employment activities, repayment, savings and Social Activity Programs

Below, the roles of the different parties are described more profoundly. In the next chapter the different roles and tasks per stakeholder to initiate the program are further elaborated.

Micro Finance Institution

The Micro Finance Institution is the financial and technical-advice supporter of the micro credit program. It sponsors the start-up phase, either in grant or in loan. Subsequently, it funds the program with a fixed amount for each approved Self Help Group. The Micro Finance Institution consults CST and Credit Unions on the banking system, reporting system and other credit issues. CST has to make further agreements on repayment, interest rates and reserves.

CST

CST facilitates the micro credit program with credit related services: consulting, training, networking, linkage and marketing, with Activity and Awareness Programs. Secondly, CST is responsible for realization and performance of the program. Therefore, it has the coordination, organization and administration task. To track performance, auditing and monitoring are critical. CST will present results to the MFI and other interested parties. Audit and evaluation reports and financial (progress) reports are therefore designed.

Credit Union

The Credit union is the financial intermediary and therefore responsible for credit delivery and related services activities. First they approve SHGs and deliver credit. They promote employment activities and monitor and guide all financial transactions. Audits must be held to all SHG members and a chartered accountant audit conducted. Besides these activities, they facilitate and encourage Social Activity programs for community development. The governing council of the credit union consults the credit union and is responsible for auditing and evaluating the union itself.

Self-Help Groups

The SHG is a self-employed and self-reliant group fully responsible for their own financial bookkeeping and repayment. They strengthen and enhance their own savings program with assistance from the credit union and CST. The savings program is critical and valuable, however it becomes more complex.

Development plan and considerations

Empowerment, self-sustainability and prosperity of women, their families and the whole community are realized through the micro credit program. However, there may be some considerations to the project. Four of these are most important. These are discussed and countered in this paragraph. Desirably, this discussion takes away the questions of why CST would like to initiate the micro credit program. The considerations covered are: why self-employment; why lending to women only, why are we assured of repayment and when is an SHG approved?

Self-employment

It is known that Self-employment has its limits. However it is often the only solution to better the lives of those who are economically and socially suffering. Development and empowerment can only be realized by self-determination. Self-employment is thus a unique chance. Most poor people suffer from their dependency on the moneylenders. The micro credit program gets them out of the clutches of money lenders and gives them the opportunity to become self-reliant and self-sustainable.

To women only

Relatively speaking, hunger and poverty are experienced more intensely by women. If one person in the family has to starve, it is the woman. Further on, poor women are expected to be responsible for the survival of their families. So, when she is given the smallest opportunity she struggles extra hard to get out of poverty. They work harder to build up security, because they suffer the most. Self-employment chances and access to credit sources for women is a matter of great importance in poverty alleviation. From experience of the Grameen bank, women paid more attention, used their fortune to develop their children and families and were more consistent in their performance than men.

Repayment

From experiences of the Grameen Bank, 98% of all women who were lent money were able to pay back the loan and interest. To cover these risk costs, a 5% risk fund of each loan is put in a risk fund, held at credit union level. The Rs 5,000 per SHG ensures repayment from of 96.2%. CST strives for full repayment and the strong monitoring system must ensure 100% performance. With close monitoring, appraisal, guidance on performance and advising, accomplished by the executives, credit officers and monitoring coordinators CST hopes to ensure full repayment.

Approval

The approval of an SHG is critical. CST and the MFI must be assured of full repayment. On the other hand, credit accessibility must not become too difficult; with too many procedures, registrations and filling in reforms. Otherwise, the micro credit program will be as inaccessible as getting loans from banks are now. Therefore, CST states that a SHG is approved to credit lending if the internal lending of the SHG has rotated two times. They then have showed their good saving and lending capabilities. As a consequence, also illiterate SHGs can be approved. The executives of the credit union and other SHGs assist these SHGs in bookkeeping and financial administration.

4. MANAGEMENT AND GOVERNANCE

In this chapter, tasks and activities of the different stakeholders of the project are identified. Secondly, a rough governance structure is drawn. The planning of personnel resources is based on the method, called Management by Objectives. Each individual's major area of responsibility, which contributes to realizing the common goals and objectives, is identified. The next three paragraphs cover the activities for the three critical stakeholders: CST headquarters, the block office/credit union and the SHGs themselves. The tasks are assigned to professions, including the number of such jobs.

Headquarters CST

In the former paragraph the role of CST is elaborated. To realize support, guidance and monitoring different employees and professions are needed. Below the different professions are elaborated with their main tasks:

- **5 (part-time) Consultants**

The board-director of CST is the most prominent consultant of the micro credit program. His main task is to control and monitor. He is mainly responsible for all project results and performance and he acts, together with the project coordinator as the contact person and representative to the Micro Finance Institution. Additionally he will advise and guide the project -, district - and monitoring coordinators, where necessary. The second consultant is the training coordinator, who prepares, coordinates end/or conducts the trainings for the SHGs full-time. The external consultant advises and guides the micro credit program where necessary. An accountant and auditor are obligatory to track the program and its performance.

- **1 Project coordinator**

(S)He organizes and coordinates the program. This involves: coordination of different credit services, organization of programs, trainings and meetings, and administration / preparation of progress and achievement reports. Together with the board director and two district coordinators, the project coordinator is responsible for taking audits at credit union-level, conducting reviews and evaluations.

- **2 District coordinators**

The district coordinators' main area of responsibility is coordination of the monitoring coordinators, preparation of financial (progress) reports and administration. The reporting structure is based on existing guidelines from CGAP¹. During the start-up phase they prepare this financial reporting system. The whole monitoring team, consisting of monitoring coordinators, credit officers and executives then inculcates this system. Workshops, trainings and meetings are therefore organized. Together with the monitoring team, the district coordinators are responsible for reviews, evaluations and audits at SHGs

- **9 monitoring coordinators**

The monitoring coordinators, one appointed to each block, act as coordinators of the monitoring system. They monitor the credit officers and assist the district coordinator in financial reporting. During the start-up phase, they develop a monitoring system in cooperation with the Micro Financial Institution, consultants and district coordinators. This monitoring system is meant for the whole monitoring team. The system enables to watch the credit officers, credit union executives and SHGs. At last, they organize reviews and evaluations with credit officers, executives and conduct workshops and meetings.

¹ If the Micro Finance Institution desires, another reporting structure can be used

Block office / Credit Union

At block level, representatives from CST as well as from the SHGs are cooperating together to make the credit union operational. The representatives from CST guide and monitor the empowered women and support in managing the credit union.

- **1 Block level coordinator (representative of CST)**

He or She prepares on establishing the credit union during the start-up phase. Hence she will be involved in the organization and administration of the micro credit union.

- **2 Credit officers (representative of CST)**

They prepare on monitoring and financial booking during the start up phase. Their main responsibility is to monitor the executives, guide and consult the executives and SHGs.

- **6 Credit union executives**

The executives prepare on monitoring and financial bookkeeping. Their main area of responsibility will be to collect the money form the borrowers through the assigned representatives of the SHGs. They further offer advice and fill out necessary reforms.

- **1 Governing council.**

The council acts as a consulting and monitoring board and conduct SHG audit and chartered accountant audit. It consists of 47 representatives: 6 executives, 40 SHG-representatives and 1 CST representative.

Self-Help Groups

The SHG is a self-employed and self-reliant group fully responsible for their financial bookkeeping and repayment. Each group consists of chair and secretary, which are the representatives of the group. They have the main responsibility on financial administration and repayment. The SHGs own their own savings program. This system become more complex but also more crucial as savings and internal lending will grow. Apparently, some approved SHGs are still illiterate and non-educated. Assistance and guidance in book-keeping for the banking and saving system is provided by the credit union executives and by other SHGs.

Governance Structure

The management structure of the Micro credit program is presented in the figure below. The parties, involved in the program are linked and their relationships are shown inhere.

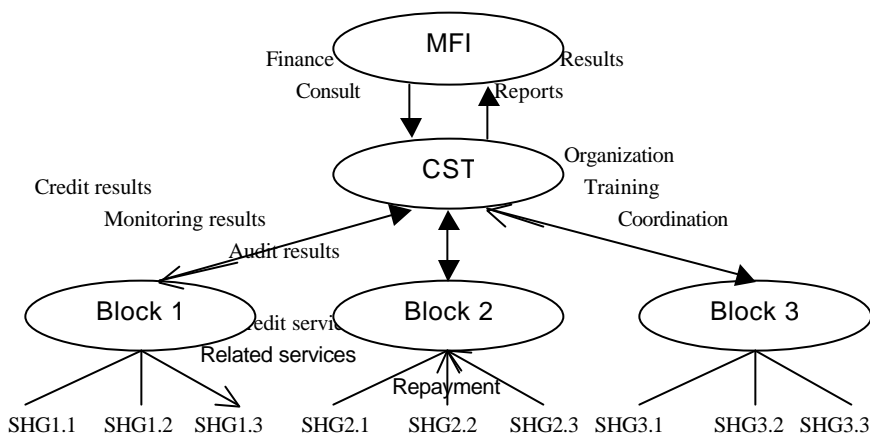


Figure 1 the abstract governing (management) structure for the micro credit program

5. BUDGET

Introduction

As mentioned in Chapter three, the program plan is divided into four phases. This chapter covers only the budget of the first two phases as well as the budget for the phases 3 and 4 will not differ that much from phase 2. In phase three, bigger loans are released, but the budget structure and distribution of income over costs will stay similar. Phase four is the offshoot of phase three and therefore a part of that budget.

For both phases a separate budget is designed. In the first phase, only expenditures are present. In the second phase income is generated from the loans. To conclude the budget a break-even analyses is done. Then, the loan requirements are announced. The loan will be repaid at the end of the program (after 12 years). At last, two important indicators of the program are shortly addressed: risk and profit. The budgets all are presented in Rupees².

Budget Phase 1

The financial resources needed for the starting phase is represented in the table below. During this phase the program is implemented and initiated. Preparations have to be conducted to actually employ micro financing activities.

Table 1 presents the financial resource needs of CST to employ the activities described in the precious chapter.

Expenses CST					
					Total per month Start-up period
Personnel expenses	<i>Amount</i>	<i>Salary</i>			
Consulting and training hours			20,000.00		60,000.00
Project coordinator	1	6,000.00	6,000.00		18,000.00
District officers	2	4,000.00	8,000.00		24,000.00
Monitoring coordinators	9	3,000.00	27,000.00		81,000.00
Total personnel expenses			61,000.00		183,000.00
Operating expenses					
Rent		10,000.00	10,000.00		30,000.00
Administration/overhead		20,000.00	20,000.00		60,000.00
Conveyance		20,000.00	20,000.00		60,000.00
Total operating expenses			50,000.00		150,000.00
Total expenses CST			111,000.00		333,000.00

Table 1 Operating expenses, made by CST head quarters, during phase one

² On 11-08-2001 the exchange rate of Rupees is:

1 dollar = 46.93 Rs. 1000 Rs. = 21.3 dollar

1 Euro = 41.91 Rs. 1000 Rs. = 23.9 Euro

On 11-08-2001, inflation rate of the year 2001 is 4.92 %

Table 2 describes the budget only one credit union demands. This figure must thus be multiplied with nine as all nine blocks will get one credit union

Expenses Credit union					
				Total per month Start-up period	
Personnel expenses	<i>Amount</i>	<i>Salary</i>			
block coordinator	1	3,000.00	3,000.00		9,000.00
credit officer	2	2,000.00	4,000.00		12,000.00
executive credit union	6	1,500.00	9,000.00		27,000.00
Total personnel expenses			16,000.00		48,000.00
Operating expenses					
Rent		1,000.00	1,000.00		3,000.00
Administration/overhead		2,000.00	2,000.00		6,000.00
Conveyance		5,000.00	5,000.00		15,000.00
Total operating expenses			8,000.00		24,000.00
Total expenses Credit union			24,000.00		72,000.00

Table 2 Operating expenses, made by one single credit union, during phase one

Table 3 represents the total demanded costs for the start-up period in Rupees. The total costs of CST and total expenses for the nine credit unions are summed up here.

Program expenses total				
Total expenses per month				
	<i>Amount</i>	<i>Costs</i>		
Total expenses CST	1	111,000.00		111,000.00
Total expenses Credit union	9	24,000.00		216,000.00
Total expenses per month				327,000.00
Total expenses three month period				
	<i>Amount</i>	<i>Costs</i>		
Total expenses CST	1	333,000.00		333,000.00
Total expenses Credit union	9	72,000.00		648,000.00
Total expenses start-up				981,000.00

Table 3 Total expenditures, necessary to set up the micro finance system

Budget Phase 2

In phase two costs and income come together. Expenditures, marked as ongoing costs, will not differentiate much from the monthly starting-up costs. Personnel and administrative expenditures stay the same. Same amount of personnel resources is demanded. Only the staff's activities itself will change. From organizing, initiating and designing the tasks changes towards coordinating, monitoring, guiding and administrating. An extra budget has to be spared at the credit union level for initiating Social Activity programs. The SHGs generate the income from repayment of interest. Then, income has to be distributed over different costs and activities.

For overview, Table 4 presents the total ongoing costs per month and per year for the whole program.

Ongoing costs Micro Credit program					
			per month		per year
CST	<i>Amount</i>	<i>Expenses</i>			
CST expenses	1	111,000.00	111,000.00		1,332,000.00
Credit union					
credit union expenses	9	24,000.00			
activity programs	9	5,000.00	261,000.00		3,132,000.00
Total ongoing costs			372,000.00		4,464,000.00

Table 4 total expenditures made during phase 2, per month and per year

The above mentioned program costs has to be earned back through pointing a certain amount of interest paid over the loan to cover these costs. Each approved SHG gets a loan, financed by the MFI of Rs. 100,000.00. Over this loan, an interest rate of 20 % is demanded per year (instead of the 20 % per month asked by money lenders). The SHG will get only Rs. 90,000.00 to spend on self-employment activities. Rs. 5,000.00 is put in the risk fund, held at credit union level and Rs. 5,000.00 is meant for the group fund to pay for additional training and other expenses.

The loan delivered to the SHG must be paid back in two years. This means a repayment of 50,000.00 a year, 4,166.67 per month, paid in weekly installments. The total interest amount paid by the SHG will then be Rs. 30,000.00 over two years, Rs. 15,000.00 a year and 1,250 a month. This simple way of counting repayment and interest makes the financial structure clear and simple for the administration at all levels, from SHG-level to MFI-level. Table 5 and 6 present the loan, given to the SHG and repayment outline

Loan per SHG		
Revenues		
loan		100,000.00
Expenditures		
risk fund		5,000.00
Group fund		5,000.00
self-employment		90,000.00
Total expenditures		100,000.00

Table 5 distribution of loan over the activities serving the SHGs

Repayment SHGs				
			per month	per year
Repayment	<i>Amount</i>		<i>Average</i>	<i>Average</i>
Loan	100,000.00		4,166.67	50,000.00
Interest	20%		1,250.00	15,000.00
Total repayment			5,416.67	65,000.00

Table 6 repayment amounts per SHG, presented monthly and yearly

The interest rate of 20 % paid by the SHGs is meant to cover several expenditures. First of all, expenditures for the interest, the MFI demands, then to cover the micro credit program costs, to fill the risk fund at the SHG-level and to fill the group fund of the SHG, meant for future internal lending.

In table 7 the distribution of interest over the several activities is presented. As an example made up, interest rates are used as much as: The MFI interest rate of 5 %, group fund reservation of 5 %, 2 % reservation of the risk fund and 8 % to cover projects costs.

Distribution of repayment over activities				
Expenditure	<i>Amount</i>			
MFI loan			4,166.67	50,000.00
MFI interest ³	5%		312.50	3,750.00
group fund	5%		312.50	3,750.00
project costs	8%		500.00	6,000.00
risk fund SHG	2%		125.00	1,500.00
Total expenditures	20%		5,416.67	65,000.00

Table 7 representation of distribution of repayment towards necessary activities

³ The inflation rate of India 2001 is estimated on 4,92 % at 10-8-2001

Break-even analyses

The program needs to be self-sustainable. Project costs must be covered by the income, which comes from a part of the interest paid by the SHGs for their loans. Break-even is then be counted through counting the amount of SHGs needed to cover all costs, given the distribution of interest over the several activities. From here, the amount of SHGs per block can be counted. In the table 8 break even is counted without covering the start-up costs. In this scenario, the start-up costs are received as a grant.

In the table 9 break even is counted, while loan is taken for the starting-up phase with an interest rate of 5 % from the MFI. This loan will be repaid in two years the program has started.

Break-even without start-up repayment				
			per month	per year
Ongoing costs			372,000.00	4,464,000.00
CST revenues per SHG			500.00	6,000.00
SHG needed			744.00	744.00
SHG needed per block			82.67	82.67

Table 8 Break-even analyses without repaying the start-up costs.

Break-even with start-up repayment in two years				
			per month	per year
Start-up costs	981,000.00		40,875.00	490,500.00
Start-up interest	5%		3,576.56	42,918.75
Ongoing costs			372,000.00	4,464,000.00
Total expenditures			416,451.56	4,997,418.75
CST revenues per SHG			500.00	6,000.00
SHG needed			832.90	832.90
SHG needed per block			92.54	92.54

Table 9 break even analyses inclusive repayment of start-up costs, taken as loan

Loan Requirements

Financial resources from the Micro Finance Institution are required to the cover loan applications. This financial commitment is requested for the duration of the whole program: 12 years. Desirably, the start-up project costs are a grant. This paragraph covers the amount of loan, which is requested to make the micro credit program operational. The amount is based on the break-even analyses. When capacity is built to expand the credit services, more loans are requested, but a wider reach of people is then realized. Our aim is to alleviate the whole poorest community from poverty. In the two tables below, the loans required are presented.

Loan requirements, start-up is grant			
		<i>amount</i>	
Self Help Groups		85	
Blocks		9	
Loan		Rs. 100,000.00	
Total loan req.		Rs. 76,500,000.00	\$1,630,090

Table 10 Loan fund requested, when start-up costs are grant, based on break-even analyses

Loan requirements, start-up is grant			
		<i>amount</i>	
Self Help Groups		95	
Blocks		9	
Loan		Rs. 100,000.00	
Total loan req.		Rs. 85,500,000.00	\$1,822,000

Table 11 Loan fund requested, when start-up costs is, based on break-even analyses

Risk outcome

Risk exists highly at SHG-level. On the income of repayment is counted, however it can never be assured. From experiences of the Grameen Bank, 99 % of all women lenders were able to pay back the loan and interest. Overall, 98 % of all loans were repaid. The 5 % risk fund, hold from each loan is meant to cover this risk. The Rs. 5,000 per SHG ensures that repayment from of 96.2% can be repaid back fully

Profit

In the fortunate position when more SHGs than break-even are approved, are credited and repay fully, profit is generated. If profit exist, this money is used to support the existing development program Mahalir Thittam, on which the micro credit program is built. This program was only partially funded by government sources and for next year no fund is even available.

To sustain the micro credit, the sustainability of the Mahalir Thittam project is critical. Self Help Groups must be formed and capacity build to make them ready for crediting. As no fund for the Mahalir Thittam, from government is available for next year, other sources are needed. The right way to use the profit is to make both Mahalir Thittam and the micro credit program self-sustainable and reliant.

If then, profit is still generated, this is used to fill the general fund. This fund is reserved to support the community development projects: several Child Development Projects, Physically Challenged People Support and Bonded Labour Project⁴.

⁴ In the Business Plan 2001, enclosed in the proposal, an elaborated description of these projects is presented. Additionally, an annual report can be sent to you, if you desire to have a more elaborate description of its results.

6. TIMING AND RESOURCE PLAN

Introduction

Plans that cover timings and staff assignments tell how much time, energy and resources are needed to actually initiate the micro credit program. At first, two timing plans are presented. Figure 2 discusses the sequence of different phases of the program. Clear stages in phase one can be identified. The timing plan in phase one is highly critical. Therefore, the first phase is more profoundly outlined in the timing plan.

The second paragraph is devoted to resource plans. First the allocation of personnel resources is presented. Subsequently, budget is noted with references to the former chapter.

Timing plan

The micro credit plan will be conducted for 12¼ years, covering four phases. The next figure shows the phases over time. Only the first two phases are elaborately described and discussed in this report.

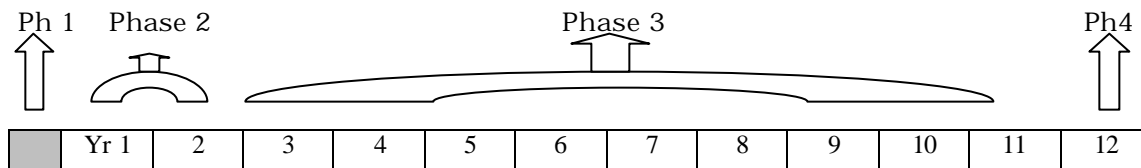


Figure 2 Phases presented over the time, covered with the micro credit program

In order to realize the program, several steps has to be taken in phase 1:

1. Assign CST resources and personnel for coordinating the project, consultation, training and monitoring.
Prepare a strong and elaborate program plan
2. Prepare, inform, pool information with SHGs, Block coordinator and prospected credit union staff
3. Develop a clear and accurate banking system and strong financial reporting plan
4. Establish credit union
5. Assign good monitoring team and develop a strong monitoring system
6. Train credit union, monitoring coordinators, SHGs etc

These activities can be represented in a timing plan, presented in figure 3. This figure schematically shows the different steps and their succession.

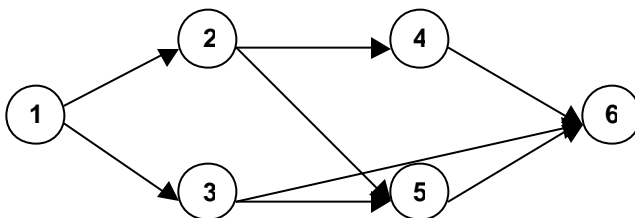


Figure 3 sequence diagram for the several activities taken during phase 1

Resource plan

Personnel resource plan

The first resource plan, presented in table 12, acts as a conclusion of chapter four. The different professions, and main areas of responsibility are summed up. The personnel resources are assigned to two geographic based areas: the CST-headquarter and block-level, where the credit unions and their staff are based in the Salem and Namakkal districts.

Level	Personnel resources	Amount	Main responsibilities
CST	Consultants:		
	Director	1	Advising, Guiding, Monitoring, controlling
	External consultants	1	Advising, Guiding, Monitoring
	Training coordinator	1	Training
	Registered accountant	1	Controlling
	CST auditor	1	Auditing, evaluating
	Project coordinator	1	Coordinating, organizing, administrating
Credit Union	District coordinator	2	Coordinating, monitoring, reporting, audit
	Monitoring coordinator	9	Coordinating, monitoring, reporting
	Block coordinator	9	Organizing, administrating
	Credit officers	18	Monitoring, guiding, auditing
	executives	54	Monitoring, guiding, administrating

Table 12 resource plan of paid personnel, necessary to conduct the plan

Budget Micro Credit Program

The financial resources needed to conduct the program are elaborately described in the former chapter. The most important tables are table 3, 8 and 9. Table 3 on pg. 13 presents total expenses for the start up. Two scenarios of break-even analyses are presented in table 8 and 9 at page 16. To know more about revenues and distribution of income over costs and necessary activities, table 6 and 7 on pg. 15 are interesting.

The total amount of loan, requested from the Micro Finance Institution to run the program, is based on the break-even analyses. Disbursing that certain amount of credit to Self Help Groups the project is self-sustainable. We note that the break-even analysis is based on a repayment schedule of two years with interest rate of 20 %. Of that interest repayment, 5 % is assigned to repay the interest to the Micro Finance Institution, 5 % for SHG group fund, 2 % for SHG risk fund and 8 % to cover project costs.

Loans requested for the duration of the program is:

Rs. **76,500,000.00 (\$1,630,090)m** with a break-even of 83 Self Help Groups (start-up costs are grant).

Rs. **85,500,000.00 (\$1,822,000)** with a break-even of 93 Self Help Groups (start-up is loan with interest rate of 5 %, paid back in two years).

7. REVIEW

After full initiation of the project, regular reviews and evaluations are conducted to control the micro financing process.

1. A big program evaluation must be conducted, after completing the second phase (after two years). The review will cover assessment of achieving objectives and identification of effects of change.
2. The monitoring system has to be reviewed and controlled by CST itself. CST is responsible for achievements and results. Thus, Full performance must be assured and the function of the monitoring team is critical to that..
3. With individuals meetings to talk about functioning, assessments, but also audits must be conducted. These all are part of the reviewing process

8. GLOSSARY

Capacity building Full development of people into empowered citizens through gaining skills in communication, leadership, self-help and mutual help, technical knowledge, improved functional literacy and numeracy and awareness on health, education and environment.

Discretionary social responsibility It is organization responsibility, that is voluntary and guided by the organization's desire to make social contributions, not mandated by economics, laws or ethics. Source: A.B. Carroll, *Academy of Management Review* (1979).

Economic empowerment Gaining financial self-reliance of people through greater access to financial resources, self-employment opportunities and increase of woman's income.

Empowerment