

PRAGATI MARG FOUNDATION

Introduction

Objectives

The vision of Pragati Marg Foundation is to promote the economic and social development of the poor, through microfinance, enabling business development and educational projects.

PMF is committed to supporting the achievement of the UN Millennium Development Goals. In particular PMF's activities will contribute towards the eradication of poverty and the empowerment of women. As PMF develops educational and health facilities in later years it will also contribute to the goals relating to the provision of primary education, reduction in child mortality and

The objectives of the company are :-

1. The provision of finance, training and other services to promote
 - a The raising of low-income households out of poverty
 - b The social and economic development of rural and poor urban communities
 - c The economic empowerment of women
2. The promotion of co-operative enterprises
3. The promotion of fair trade
4. To facilitate access to financial services among the poor
5. To apply company any company returns to projects promoting health, education and socio-economic development

The objectives of the company are set to be deliberately broad, and not all of the above aspects may be covered in the initial years of implementation. Broad objectives enable the company to tailor services in response to local needs rather than being restricted to one mode of operation

Structure

Pragati is being established as "company limited by guarantee" under s.25 of the 1956 Companies Act. This is the Indian equivalent of a UK charitable company, with no shareholders and the requirement to apply profits to a charitable purpose

The company will be governed by a Board of Directors with representation from NMM and I-connect.

The company is being formed to realise the vision of the NMM leadership of NMM to help the poor, and the initial pilot work has been greatly assisted by the recruitment of a talented MBA, who has sacrificed a lucrative career at ICICI bank Hyderabad

Area of Operation

Pragati proposes to use the NMM network of churches as the springboards for launching operations. Using church pastors and local believers will enable activities to be piloted using known reliable individuals, before reaching the wider community. Churches can act as operation bases and church members can “spread the word” in local communities, helping to minimise running costs

The network of NMM believers is around 200,000 spread over a number of Indian states, which gives a long-run potential for reaching a very large number of people across a wide geographical spread

Initial operations will commence in and around the Udaipur district of southern Rajasthan, one of the poorest areas of India.

Socio-Economic Background

Rajasthan

Although Rajasthan is known primarily for its rich history and beautiful tourist attractions , the state contains some of the most underdeveloped areas of India.

77% of Rajasthan’s 56 million people live in rural areas , with 70% of the population dependent upon agriculture and mining. Literacy is 60% (75% male. 43% female) (2001 census).

Average per capita income is approximately Rs 28885 pa (£ 413) , 9th out of the 14 major Indian states. Only 2.1 million households live beneath the official poverty line (BPL) of Rs 3650 per capita pa (£ 52 pa). However the official poverty line represents scarcely sufficient income to subsist on a minimal level of food. Although only 4 states have a lower proportion of BPL households than Rajasthan , the low per-capita income levels indicate a large proportion of the population being poor but not quite poor enough to qualify for government assistance.

The climate is arid, with rainfall generally only occurring during the monsoon period. Increasing levels of ground-water exploitation and variable monsoon rainfall have left 70% with poor levels of water availability. Only about 35% of agricultural landholdings are irrigated. Average landholdings are only 3.34 ha (8 acres) Crops vary between districts but mostly consist of low-priced subsistence food sold in local village markets.

Lack of employment forces many village dwellers to search for work in the cities or in other states. Such migrant labourers generally perform low-paid casual work, and are forced to live in unhealthy slums

Udaipur District

The District is located in South-Eastern Rajasthan containing the popular tourist destination of Udaipur city. 82% of the 2.6 million population live in their rural hinterland, to the South of the city which contains no significant towns in an area of 13,000 sq km.

Much of rural Udaipur lies within the “tribal belt” of Southern Rajasthan with half the district population classified as belonging to “scheduled tribes” (ST). These tribal groups represent indigenous people groups who lie outside the Hindu caste system ,with their own social and religious customs, and in some cases their own language. These peoples have traditionally occupied forest or hilly areas , and have existed on the margins of mainstream society.

On the UN Human Development Index rankings , Udaipur ranks 20th out of Rajasthan’s 33 districts. Average income is 22,032 Rs per capita (£ 314 pa), approximately half the Indian national average. .

Much of Udaipur district consists of relatively poor quality land located in the Aravalli hills. Average landholdings are only 1.6 ha (4 acres) per household ,allowing for little production above basic subsistence levels. Only 46% of households have electricity, and only 22% possess toilets , although 97% have access to safe drinking water.

Infant mortality is 9.4% nearly twice the India average of 5.3%. In other words nearly 1 in 10 babies born in Udaipur district will die in their first year, the rate in the UK is 1 in 200. A 2004 survey of Udaipur villages reported 90% of the population had a body mass index below 21 (the US cut-off point for low nutrition) ,and approximately 50% showed signs of anaemia . About 30% of the population claimed to have difficulty in performing tasks such as drawing water, working in the fields and other essential agricultural tasks due to back-ache or other body pains. The poor health of villagers is in large measure due to poor nutrition and the long-term effects of manual agricultural labour.

Free public health facilities are provided in village areas but are actually closed for over half the advertised opening time , and patients are often required to purchase their own medication. Private (usually unqualified) “doctors” and traditional healers are used more frequently than the erratic public provision, sometimes leading to debt and forcing the family further into poverty.

Rural literacy rates are 72% for men and only 32% for women. Girls are often kept home from school to look after siblings and perform domestic chores, due to a traditional perception that female education is unimportant. Education is provided free but government schools suffer from high teacher absenteeism and provide poor quality education. Poor education is a significant barrier in preventing the rural poor from accessing higher paid jobs in the booming sectors of the Indian economy

Comparative Development Statistics for Udaipur , Rajasthan , All India and the UK

Indicator	Udaipur District (a)	Rajasthan	India	UK
Per Capita GDP pa (b)	£ 314	£ 413	£ 630	£ 22,589
- purchasing power parity (c)	£ 1,046	£ 1,376	£ 2,100	£ 22,589
Life Expectancy	n/a	62	64	79
Infant mortality per '000	94	63	53	5
% Urban Population	18%	24%	28%	80%
% Scheduled Tribes (d)	48%	13%	8%	n/a
% Scheduled Castes (d)	6%	17%	16%	n/a
Adult Literacy	58%	60%	65%	98%

(a) The statistics for Udaipur and Rajasthan are taken from the Rajasthan Government Directorate of Economics and Statistics , and apart from GDP (2009-10) are taken from a 2007 update of 2001 census statistics.

(b) Converted at 70 Rs to the pound

(c) Adjusted exchange rate taking into account the relative cost of living (World Bank)

(d) Scheduled tribes and castes are government classifications of people groups ("tribals" and dalit ("untouchables") who have traditionally suffered discrimination and marginalisation

The above table demonstrates not only the significant gap in living standards , health and education between the people of Udaipur and the West but also that the area's development is significantly behind most of India.

Factors influencing poverty

Most farmers grow low-value subsistence crops such as maize, and some cash crops such as ginger or musli. Produce is generally sold in village markets or to distributors. Better prices are available in city markets or at times of shortage , however lack of transport/.storage and the need to convert crops into cash quickly prevent farmers taking advantage of the best prices. Low returns on crops prevent significant saving , or investment in irrigation or equipment. Drought, family weddings, or illness can force households to borrow from friends , neighbours or moneylenders.(Banks will not generally lend to poor village householders)

There is significant potential however for economic improvement in the district. Relatively small amounts of finance can enable farmers to buy seeds for cash crops (such as ginger and musli) which will produce significantly more cash. Investment in irrigation or water pumps can bring under-utilised land into use. Goats can provide milk and fertiliser. There is also potential to invest in the storage and distribution of produce to enable better prices to be obtained.

Initial Base

The initial base for operations will be south-west of Udaipur in the Jhadol block (a sub-division of Udaipur district) and the neighbouring village of Pai. The area contains the villages of Pai and Makadedeo where NMM has an established network of churches . Pai and Makradedeo are within 1 ½ hours journey from Udaipur.

Jhadol is an entirely rural area with no significant towns,. The population of 193,000 is 70% scheduled tribe , mostly of the Bhil tribe. Literacy rates are 74% male , 43% female. The villages around Pai and Makradedeo are located in an upland area , with variable quality land , divided into small farmsteads.

The first branch office is planned to open in Pai near Makradedeo in the first year of operation. Currently operations are conducted from the NMM campus in Udaipur

Initial Pilot Studies

A pilot project has undertaken to assess the potential impact of providing microfinance for cash crops. Seeds were purchased in June 2010 and issued to farmers and the value of seeds issued became the loan principle. Loan repayments were collected following the period of crop harvest over November and December.

Results indicate a very significant return to farmers from the switch to musli or ginger crops. In every case (including one where there were crop disease problems) , the farmer has produced additional income significantly in excess of that needed to pay off the loans.

There is also a need to develop materials to improve client understanding of the loan concept

Potential for other Developments

A number of other projects are under consideration as potential microfinance schemes

The “Jacob’s Flock” goats project has been set up to issue goats (funded by donations) to families, on the basis of recipients returning kids for re-issue to new clients. As the goats can be fed on naturally occurring tree foliage, the cost to maintain is minimal and the milk can be used for family consumption. Male offspring can be sold for meat once grown for up to £ 50.

Another potential area for development is poultry farming . The setup costs for a shed for “100 layers” (egg production) would be about £ 350, The yield would be approximately £ 1050 pa and the running costs and fodder £900 pa. Farming broiler chickens (for eating) could produce a return of £ 1800pa against a cost of £ 1100 pa producing a return of around £ 700 pa would provide a better return

Water pump rental is another business option. A diesel water pump can be purchased for around £ 360, These pumps are vital for the winter (Rabi) crop season to pump water from tanks or reservoirs to water crops (winter rainfall is

rare), and the market rate for rental is about 70p per hour. The demand for pumps is such that cost recovery will occur within 2 years

In the longer run the potential for partnering with other organisations to enhance water harvesting and conservation may be explored

Longer run possibilities include storage and distribution of agricultural produce, to enable producers to get a higher proportion of the return on their products.

Financial Projections – Microfinance

In order to test the financial viability of the microfinance scheme a number of projections have been run using the “Microfin” modelling software.

The main costs of running a microfinance scheme , which need to be recovered are :-

- Central administration/management costs of a Head Office
- Field officer costs at local branch level , who interface with customers
- Borrowing costs - the interest rate charged on money borrowed for onward lending
- Bad Debt Provision – allowance for debt write-offs

The cost of borrowing and bad debts are directly variable with the size of loan portfolio. Field Officer and branch level costs are semi-variable, and head office costs will be fixed.

To break even therefore , the interest rate charged to clients needs to be at least :-

$$\text{Interest Charged} = \text{Cost of Funds} + \% \text{ default rate} + (\text{running costs/loan portfolio})$$

Projecting the finances of a microfinance start-up is effectively a break-even analysis, as the % running costs on loans will decline with the size of the portfolio,

Modelling has been undertaken under a full and limited growth scenario depending on the availability of funds

Full Growth Scenario

Uses the following assumptions :-

Year 1 – first branch established

Year 2 – first branch reaches full capacity , Q4 2nd branch opens

Year 3 – second branch reaches full capacity Q4 3rd branch opens

Year 4 - three branches operating at full (500 loan) capacity

The following types of loans are assumed :-

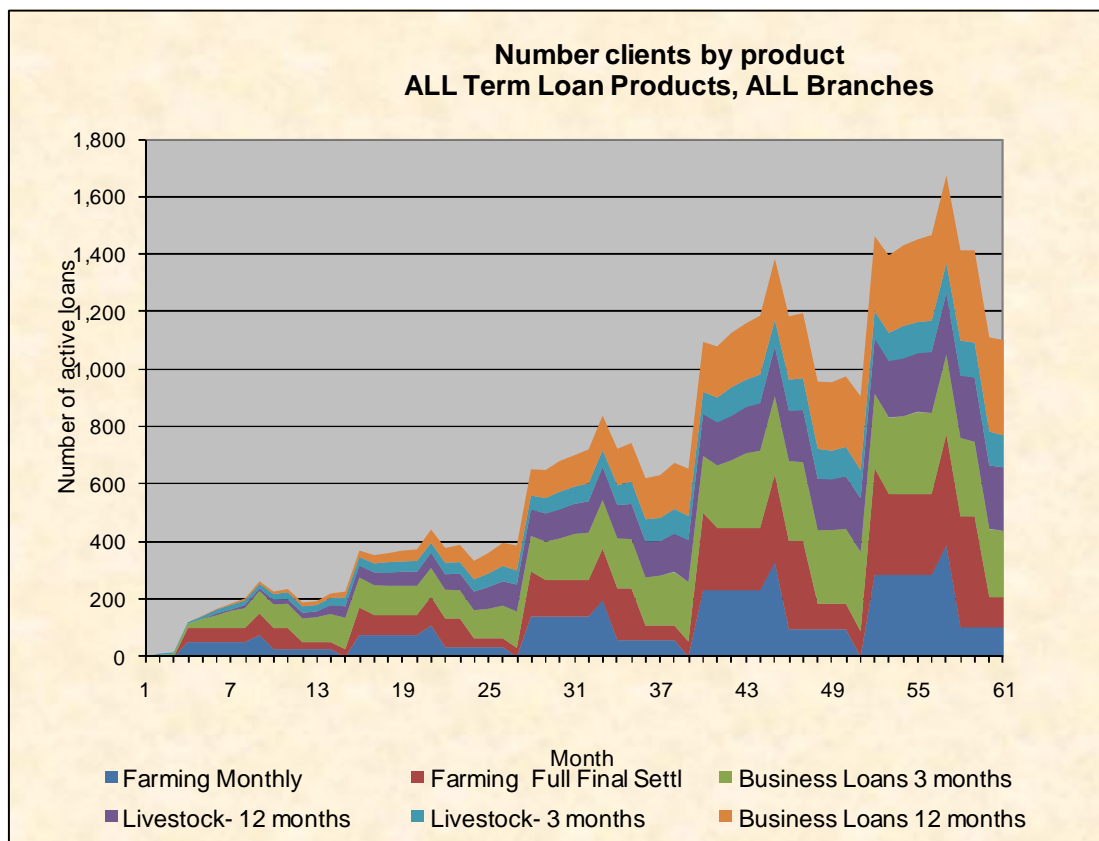
Seed loans – 6-8 month loans to cover the main growing season of June- November and the winter crop season commencing in November ,offered either as a monthly or single instalment payment average loan size 5,000 Rs (£72)

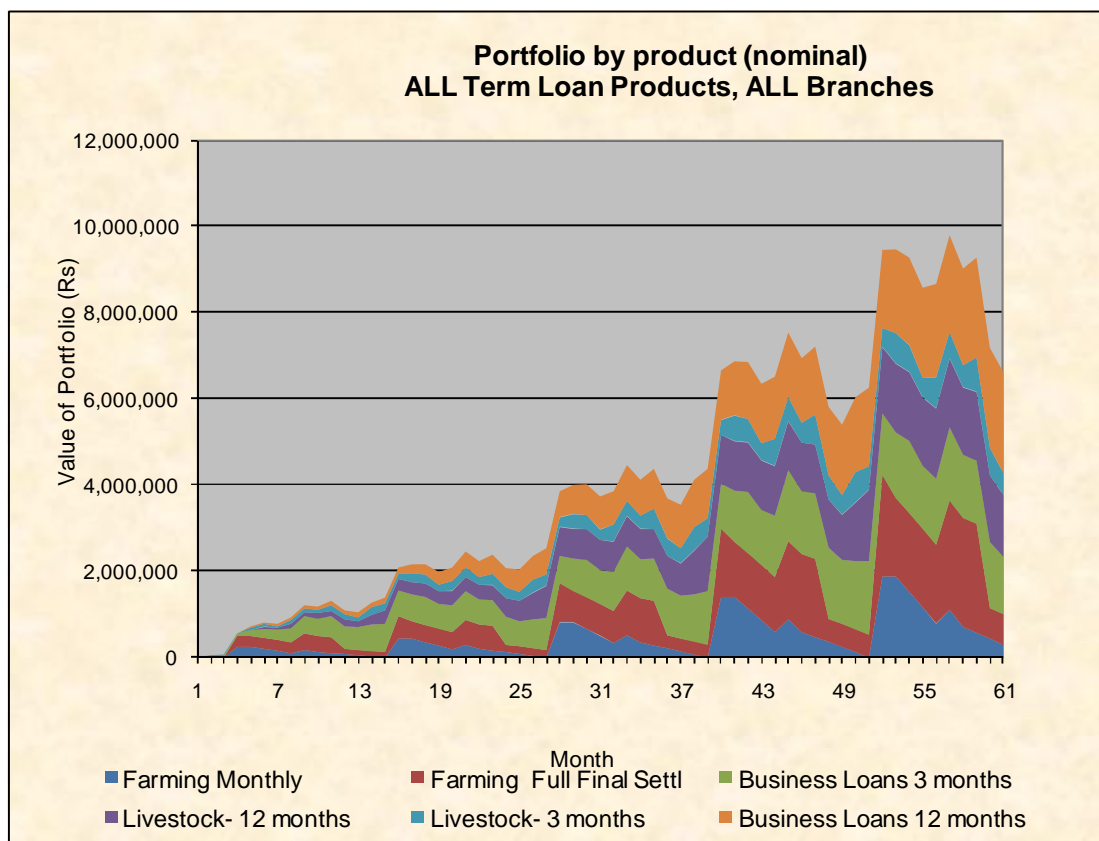
Livestock loans – offered over a 3 or 12 month period Rs 5,000-10,000 (poultry, goats)with some large loans (up to Rs 50,000 for buffalo)

Business loans – small 3-month loans (average 5,000 RS)for stock purchase/working capital and 12-month loans for equipment of 10-20,000 Rs .

The higher loan values are only available for clients who have graduated from smaller products

Client numbers are assumed to grow as per the table below, note that the peaks and troughs are caused by the seasonal nature of farming loans





The value of the outstanding loan portfolio in the 5th year reaches £ 142,000.

It was further assumed that:-

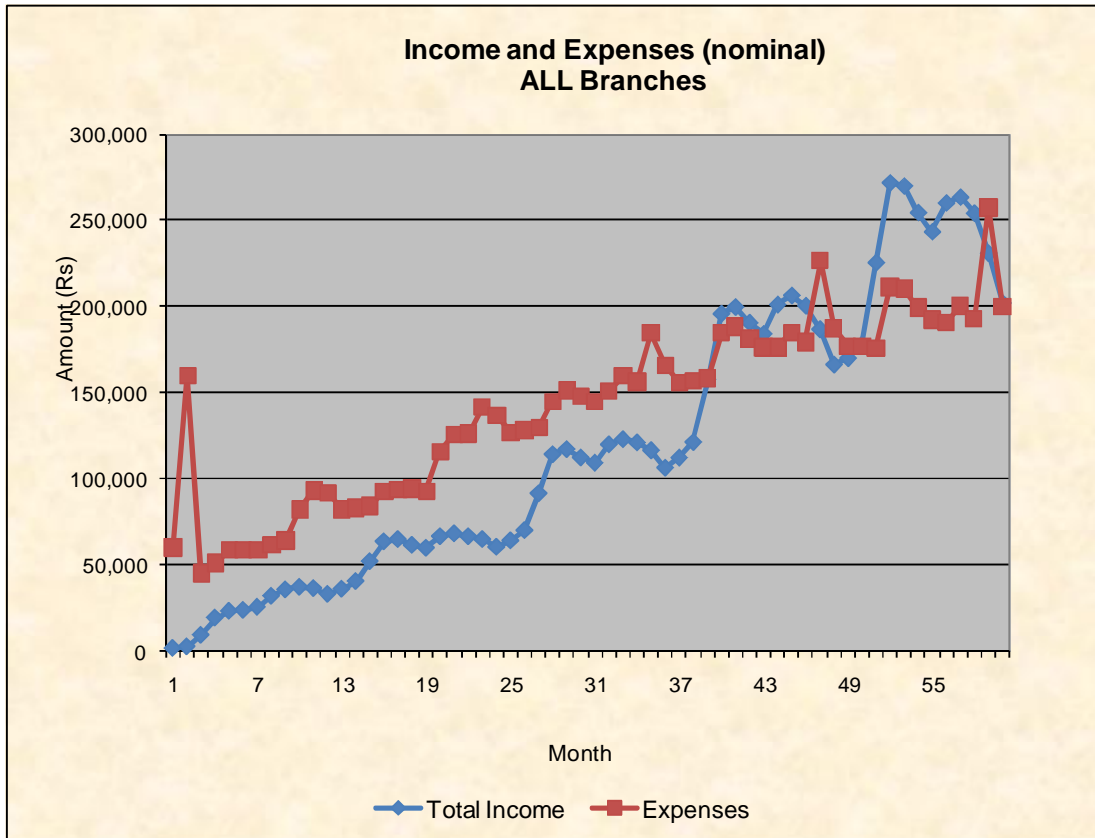
- Cost of funds is 8% (Indian base rate) ,
- Bad Debt provision at 5%
- 4 staff per branch and 2 head office staff

Sensitivity testing revealed that it was not possible to cover costs in the originally proposed interest rate of 24%

Therefore the modelling assumes a rate of 30% , excepting 3-month loans which are charged at 40% representing the high cost of very short-term loans

Note that the loan rates represent the pro-rata annual charge on the declining charge (equivalent to APR). On a 6-month 30% equal instalment loan total interest charges will be equivalent to about 8% of the original loan value. A 3-month equal instalment loan at 40% will generate an interest charge of about 6% on the loan value

Modelling on this basis produces the following profile of income and expenditure over a 5-year period :-



The expenses “spike” in the first year represents initial set up costs (computers etc) . On this model the company crosses the breakeven point when the 3rd branch expands towards capacity in year 4

The breakeven point is reached at a loan portfolio size of around 70 lakh Rs (approximately £ 100,000) at which point the operating costs have fallen to below 20% of the loan portfolio.

The surplus deficit/profile over 5 years would be :-

Year	Surplus/(Deficit)	Cumulative
2011/12	(£ 8,600)	(£ 8,600)
2012/13	(£ 8,000)	(£ 16,600)
2013/14	(£ 7,500)	(£ 24,100)
2014/15	(£ 500)	(£ 24,600)
2015/16	£ 6,300	(£ 18,300)

Effectively the company would need to use £ 25,000 of funding to cover losses to 2015, which would be recovered in the period 2016-2019.

Over a 5 –year period to sustain this model would require borrowing over the 5-year period of up to £ 150,000. £ 125,000 for onward lending and £ 25,000 to bridge losses during the move to break-even.

Such a funding profile is likely to require the funding from an external organisation rather than solely the contributions of individual supporters.

Limited Funding Scenario

An alternative funding scenario has been modelled in which approximately £14,000 (10 lakh Rs) per annum is raised in loan funding.

This would enable a one-branch model with one manager acting as both managing director and branch manager and 3 field officers with loan activity gradually rising to 500 loans)

Under this scenario the loss per annum would start at £ 7,800 in the initial year falling to £ 2,000 pa when the branch reached full capacity.

In purely financial terms this scenario appears unattractive as lack of available loan funds would prevent the company reaching breakeven. However a slower start to the loan business would present some advantages :-

- More time to develop procedures/models of working for the microfinance – less risk
- More chance to research community needs and tailor services more effectively
- Business models will be more sharply developed and credible to attract outside agencies as partners/lenders/donors

Proceeding on the basis of a limited loan portfolio would enable the company to commence without the initial support of a major external funder and would enable the development of business models and community support programmes that might attract grant or NGO funding

Securing grant funding would enable the microfinance scheme to operate as part of a company operating other community development activities. This would enable the administration costs to be shared, and enable a breakeven point to be reached at a much lower level of activity . In the longer run microfinance activity can grow to a point of generating funds for education, health and community development activities.

Impact of Microfinance

Success Stories from the Initial Pilot

The following reports from the field illustrate the power of microfinance schemes to impact the lives of villagers :-



Sardara Bhai was given 10 kg of Musli seed in form loan to grow in his field. The loan amount calculated post interest was around Rs.4507. The project started in the month of June'10. He was one of the regular participants in our training sessions and area meetings along with his wife Hirki Bai. Both the couples were very regular in all the aspects of our project. By Nov.'11 we had the chance to witness the fruit of their labor. Their Musli was tested to be one of the best quality yields of the region. It seems they had implemented all that they learned in our training sessions and have done the best labor back in the field. He had started unveiling his field, few days ago he sold around 7kgs of the stuff @ Rs. 950/kg from 1/3rd portion of his field. He has repaid nearly 50% of his loan from the sale. Very shortly he would be clearing the total loan. Sardara Bhai is expecting at least two times more yield by the end of the season.

Thus Sardara Bhai would profit about Rs. 16393 post clearance of the loan amt. of Rs.4507 within 5 months time. He is planning to initiate his house construction work with the money. He is extremely excited about the project and wants to continue in the next loan cycle. We wish to make many more Sardara bhais in the coming years.



New member added to the family of Shanta Bai- the first fruit of Jacob Flock

Shanta bai was one of the most active ladies amongst all participants of Jacob flock during the training sessions. She is the mother of two children living in one of the toughest areas of Rajasthan; the wall of her house speaks about her living conditions. She enjoys one of the hardest life styles. She has been living with Poverty, hunger, malnutrition etc for a long time now. Probably she belongs to a category called as extremely backward and poor women by some of the so called developed ones. She was very regular to the training programs conducted by Pragati microfinance before loaning the goats. It seems that she has implemented all what she learned during the training classes back home. One of her Goat gave birth to the first fruit of the project. A new member is added to her family. Her Goat now is giving more than a litre of milk every day. She is very excited about it. She sells half litre of milk to one of her distant neighbour. Her son Babulal enjoys the nutritious Goat Milk at home every day. She was also able to offer a cup of tea of her Goat's milk to us when we visited to meet her at home at the news of the new birth. The value of her live stock will soon become Rs.7500. Pragati Microfinance will surely help her achieve heights in life. She would truly add value in life of her children through her efforts. Her children will surely enjoy better life by the hard work of their mother. It's just a matter of time; she is already on the track of progress.

Financial needs of the project: *each pair of Goats costs approximately Rs.5000 to Pragati Microfinance. We plan to distribute at least 200 pairs of Goats by 2011*



Survey of Area and Cluster Groups

The field officers have been engaged on a survey of believers in local village churches., around the Makradedeo and Pai areas. The area has been divided into 20 “clusters” each representing either a single village or group of local villages.

The survey which will be completed and analysed over Spring 2011 includes questions relating to the income, housing, farming methodology and health of the household. This will enable a fuller picture to be developed of socio-economic conditions and enable PMF to focus its work to address local needs.

The cluster groups will serve as a focal point for interaction with PMF. Each cluster will conduct regular meetings with the field officer. In future cluster groups may provide bases for the formation of self-help groups, co-operatvie enterprises or be the focus for the development of banking services.

Funding Approach

The pilot microfinance scheme has been enabled with generous donations from UK supporters , and £ 7,000 has been raised to date (of which approximately £ 2,000 has been used to date) .

To operate effectively , on the basis of the limited funding scenario outlined above PMF is looking to raise £ 15,000 in donations or loans to enable the first year of operation. Interested parties have indicated a willingness to provide around half this amount , and we are looking for additional sponsors to provide start-up funds.

Following the formal establishment of the company, and the completion of further research into local community needs ; PMF will seek sponsorship from NGOs for community development work. There is also a possibility of obtaining funding for research into community needs

On the establishment of a successful microfinance business model , the company may seek bank funding to enable growth into a fully sustainable larger business , however the focus will remain on community development and any profits will be applied for charitable purposes

Risks and Mitigation

Risk	Mitigation
Client loan default	<p>In the initial phase , loans will be targeted to the NMM church network , or contacts known to pastors , where clients will be known and social pressure will apply</p> <p>Group lending may be used for some loan types</p> <p>Business and financial literacy training will be given to clients</p> <p>A provision for bad debt will be built into financial projections</p>
Failure to obtain funding to reach a sufficient loan portfolio to cover administrative costs	<p>A relatively cautious approach will be taken to expansion , the company will seek diversification into running businesses with direct profits if loan business cannot expand</p> <p>Field Officers may be redeployed into other community schemes if necessary</p>
Regulatory Risk – The Reserve Bank of India is proposing tighter regulation and interest rate capping of microfinance institutions	<p>PMF s proposed size will not fall into the regulatory scope (approx £ 1 million capital)</p> <p>If interest rate caps set a market rate below that proposed by PMF compulsory savings or loan insurance may need to compensate for lower rates</p>
Public / Political Perception - farmer suicides in Andhra Pradesh have called MFIs into question, and large commercial have been accused of making excess profits at the expense of the poor	<p>Clear and transparent interactions with clients on loan terms</p> <p>Clear procedures on debt recovery</p> <p>Maintenance of a strong charitable/community development focus to the company</p> <p>Transparency in company finances and clear justification for rates set</p>

Expertise - the company may find difficulty in recruiting staff of sufficient experience within a low cost base	Utilisation of external support and advice through contacts made through Durham Business School staffing/expertise needs will be kept under continuous review during the development of the company

Supporting Pragati Marg Foundation

There are a number of ways in which you may support PMF

Advice and Technical Support

If you have expertise or knowledge in developing country community development , small business start-ups, financial literacy training , banking/finance, fundraising or other relevant skill, then you may be able to help.

A great deal of useful input may be made without travelling to India, such as reviewing policies , financial projections , emailing useful documents , links etc. Discussions with local staff can be arranged via Skype.

If anyone is interested in travelling to visit projects please contact anyone at I-connect.

Prayer and Moral Support

The impetus behind PMF is Christ's teaching that we should help the poorest members of society , and of course prayer support is greatly valued. We also recognise that many people of other or no religious persuasion may wish to join such an endeavour , and words and emails of encouragement are just as valued.

Donations

Donations will enable PMF to develop a community focus and engage in activities which may not generate a financial return. If you would like to donate you may do so via the I-connect charity , making clear that you would like the donation to go to PMF (details below)

Non-earmarked grants and donations are particularly useful as this enables funds to be applied to the most appropriate use "on the ground"

“Social” Loans

It is important to stress that PMF is a non-profit making entity and that we are not attempting to sell investment products. It is also important to stress that any business start-up involves an amount of risk.

Supporters who are prepared to loan a substantial amount , are of course welcome to negotiate terms individually as we appreciate that personal circumstances vary . Loans which extend over a 5-year period would be particularly valuable

It is anticipated that social loans might be made on the following basis :-

Either :-

- (a) Loan denominated in rupees with an interest rate based on Indian rates
- (b) Loan denominated in £ sterling with a fixed interest rate based on UK rates

Currently Indian interest rates (8%) are substantially higher than UK rates , if PMF borrows from the UK at these rates then the exchange rate risk needs to be borne by the lender . Lenders who would prefer more certainty could denominate the loan in sterling , however because in this case PMF would be subject to exchange rate risk , then a lower fixed rate would be offered

Interest rates should be based on long-term rates for the period lent (currently 1 yr rates are around 0.5% , rising to around 4% for 15-years). If lenders are willing to defer or forego all or part of the interest, this would be very helpful

Repayment profiles would have to be based on individual negotiation , but if lenders are prepared either repayment at the end of term , or a deferred schedule of capital repayment this would help cashflow.

Interest and capital repayments would be scheduled as single annual payments (possibly quarterly for large loans) in order to minimise the administrative burden.

It must be noted that there is a degree of risk involved , although all reasonable care will be taken to ensure the repayment of loans, neither NMM or I-connect can underwrite the loans

Mark Speller CPFA(Treasurer, I-connect)
Debidutta Pattnaik MBA (Pragati Marg Foundation)