



**Stree Nidhi Impact Assessment
2019-20**

**Impact study prepared for the National
Scheduled Tribe Finance Development
Corporation by the Indian Institute of
Corporate Affairs**

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1. Introduction

In November 2019, the National Scheduled Tribes Finance Development Corporation (NSTFDC) approached the Indian Institute of Corporate Affairs (IICA) for an impact assessment of loans made by Stree Nidhi Credit Cooperative Federation Ltd. A state channelizing agency partially funded by NSTFDC, Stree Nidhi provides loans to individual members of Self-Help Groups (SHGs) for productive and consumptive purposes. NSTFDC requested that IICA identify the flow of Stree Nidhi credit to tribal populations, the impact of such lending, and the value addition provided by the Stree Nidhi relative to other finance schemes such as banks and other microfinance institutions (MFIs). IICA conducted a case-control study of Stree Nidhi borrowers in four Telangana districts, with locations chosen to optimize access to tribal populations. The study included a survey of 683 women across 10 villages. Findings from the survey, unit inspections, and other data indicate that Stree Nidhi lending has a positive and productive impact on tribal and non-tribal beneficiaries. The organisation employs innovative strategies to bring significant value as compared to banks and other MFIs. Stree Nidhi utilizes funds earmarked for Scheduled Tribes (STs) to serve the intended population and its loans to tribal beneficiaries are at par with the amount it borrows from NSTFDC. The text contained herein details these findings.

2. Methodology

IICA conducted a mixed-methods study that examined credit flow and impact in 10 villages across four Telangana districts, namely Khammam, Suryapet, Mahabubabad, and Adilabad. As per the data provided by the Stree Nidhi head office, the chosen districts had higher proportional tribal populations and were therefore ideal for field survey. Two officials from IICA along with a five-member survey team conducted the assessment. Key Informant Interviews (KIIs) of Stree Nidhi staff and Village Organisation (VO) leaders and a survey of 603 Stree Nidhi borrowers (the beneficiary group) and 83 non-Stree Nidhi borrowers (the control group) took place over 10 days. Identifying the control group proved challenging given the penetration of Stree Nidhi in the villages. Accordingly, the control group primarily consists of SHG members who took loans from informal sectors and alternative microfinance schemes and defaulters on previous bank loans who are disqualified from Stree Nidhi borrowing. All the control group members were interviewed in the presence of the VOs to ensure the validity of the control group. Stree Nidhi staff and VO heads convened community meetings to facilitate access for the survey team. IICA also performed a random physical inspection of over 50 Stree Nidhi beneficiary units. Units were selected based on logistical feasibility and availability of beneficiaries. Finally, IICA conducted unstructured interviews of select Stree Nidhi beneficiaries to obtain success stories. The district-wise distribution of beneficiaries and control group members is provided in Table 1.

Several innovations set Stree Nidhi apart from other lenders working with SHGs. Unlike standard SHG lending models, Stree Nidhi lends to individual SHG members, rather than SHGs as a whole. The organisation relies heavily on SHG federations for due diligence and administration. Accordingly, it reinvests profits in SHG federations, paying a percentage of realized interest to all participating federations and a dividend to federations that have opted for shareholder status. Technology is a backbone of the program, ensuring equitable access, good credit discipline, and transparency. A fully automated lending and recovery system provide loans using Aadhar details and



Technology is the backbone of Stree Nidhi's operations. The organization issues tablets loaded with a custom loan processing and monitoring application, IVRS, and biometric capabilities to all VOs. This enables 24-hour service, real-time reconciliation, and full transparency.

Interactive Voice Response System (IVRS), eliminating the need for branch visits. Operating 24 hours per day, the system enables application and processing outside of traditional business hours. Such factors facilitate rapid loan disbursement, which occurs within 48 hours versus the 10-day norm of other banks. With real-time reconciliation, the system operates with full transparency, allowing no scope for mismanagement of funds.

3.2 SHG Federation Overview

Stree Nidhi's business model rests on the 4-tier structure of SHG federations. SHGs represent Tier 1 federations and comprise 5-15 members. Village Organisations (VOs), which represent Tier 2, consist of one member appointed from each of 20-30 SHGs. Mandal Samakhyas (MSs) represent Tier 3 federations and consist of one official from each of 5-10 Village Organisations. Zilla Samakhyas (ZSs) represent Tier 4 federations, comprised of representatives from Mandal Samakhyas. Functional duties vary by level of federation. SHGs meet twice monthly for general activities while VOs meet once per year. Village Organisation Assistants (VOAs) conduct SHG bookkeeping, meeting coordination, and loan recovery. Stree Nidhi shares an interest with VOs and MSs to help cover the salaries of VOAs. Collectively, these stakeholders serve as the clients, shareholders, and effective support staff of Stree Nidhi.



SHGs are central to Stree Nidhi's business model, serving as clients, shareholders, meeting coordinators, and field staff.

field staff from borrower SHGs, many of whom are members of the ST community. As noted in the Background section, two out of the organisation's 12 elected directors also belong to the ST community. Inclusion in the organisation's governance structure and provision of skilled employment contribute to financial inclusion as well as ST social status.

4.1.4.3 Ease of repayment.

Through the KIIs with the Stree Nidhi officials, IICA found that the loan repayment period was longer than other alternative schemes of banks and MFIs. IICA's survey found that 42 per cent of the non-Stree Nidhi borrowers' repayment plans were less than 2 years, which is the minimum repayment period for any loan from Stree Nidhi. Longer repayment plans have put less burden of repayment of instalments and provide valuable time to generate sustainable livelihoods.

4.1.4.4 Quality lending practices

Discussions with Stree Nidhi officials revealed that Stree Nidhi loans are exclusive to the individual SHG members and in no way shared among the group. This ensures lending based on need rather than lending for profits.

4.1.4.5 Ease of application and disbursement of loans

Following the KII it was found that Stree Nidhi overcomes limitations arising from the traditional lending model. With the help of technology, it can seamlessly operate 24 hours per day. This facilitates rapid loan disbursement, which occurs within 48 hours versus the 10-day norm of other banks.



Mrs Radhe was mostly involved in agriculture field assisting her husband. After availing loan from Stree Nidhi, she manages to open Kiryana shop and additional income enabled her to teach his son higher education. The income gradually raised to around 3000 per month.

4.1.5 Overall Effectiveness of the Unit

IICA analyzed the overall effectiveness of Stree Nidhi lending vis-à-vis other schemes. The survey examined repayment and recovery rates, successful management of the loan amount, whether units and assets reasonably match, the overall effectiveness of the units and the need for additional assistance support to make the units profitable.

4.1.5.1 Recovery Rate

Figure 8 presents the recovery rate for the Stree Nidhi and control group borrowers.

4.3.5 Scope for Reducing Interest Rate

IICA finds that the organisation's profit margin and working capital is such that reductions in the rate of interest charged to beneficiaries are not feasible barring a reduction in the effective cost of borrowing.

- a. A reduction in the rate of interest on funding provided to Stree Nidhi by NSTFDC is suggested. As other organisations like NBCFDC, NSFDC, and NHFDC are charging Stree Nidhi 4 per cent for funding (without any collateral requirements), a reduction from 6 per cent to 4 per cent⁷ or even less is recommended.
- b. NSTFDC collateral requirements comprise 2 per cent of loans plus GST. Although subsidized to a rate of 6 per cent, such requirements increase the effective cost of funds by tying up capital that could be lent to beneficiaries (at a profit and benefit to borrowers). Stree Nidhi has maintained a high recovery rate over its seven years of operation and elimination of collateral requirements would render the rate charged by NSTFDC consistent with that charged by banks that do not require collateral. As a suggested alternative arrangement, Stree Nidhi may also consider using accumulated reserves and/ or net profits for sake of collateral to avoid or subsidize the charges paid to banks as collateral guarantees.

Reducing the interest rates charged and/ or eliminating the requirement of collateral will enable Stree Nidhi to increase its scope of lending and support NSTFDC in its mandate to provide sustainable opportunities to the poorest of the poor.

5 Recommendations

The study proposes the following recommendations to enhance Stree Nidhi's capacity to provide credit to neglected segments of the population.

5.1 NSTFDC

5.1.1 Enhancing the credit limits to SHGs

At present, Stree Nidhi caps SHG borrowing at INR 3.75 lakh. Pragathi loans, which are the most commonly availed Stree Nidhi product, are capped at INR 50,000. An increase in SHG borrowing limits to at least INR 5 lakh may be advisable, as the Bank Linkage Program allows INR 10 lakh per SHG. In line with the latest Reserve Bank of India (RBI) circular, an increase in borrower limit to INR 1.6 lakh may also be explored for urban areas and INR 1.25 lakh for rural areas. As stated in the circular "Statement on Developmental and Regulatory Policies" dated 4th October 2019

Taking into consideration the important role played by MFIs in delivering credit to those in the bottom of the economic pyramid and enable them to play their assigned role in a growing economy, it is proposed to revise these criteria as under:

- i. Increase the household income limit for borrowers of NBFC-MFIs from the current level of ₹ 1.00 lac for rural areas and ₹ 1.60 lac for urban/semi-urban areas to ₹ 1.25 lac and ₹ 2.00 lac, respectively.
- ii. Raise the lending limit from ₹ 1.00 lac to ₹ 1.25 lac per eligible borrower.

⁷ *Ibid.*

			(Institutional Monitoring & Trainings)
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Appendix 6.2: Formula used for choosing the ideal sample for the Survey

IICA interviewed 603 Stree Nidhi beneficiaries, selected by random sample stratified by the district. For comparison, the team interviewed a control group of 83 borrowers of alternative schemes. The total sample consisted of 686 persons.

Beneficiary group sample size was selected for a confidence level of greater than 99 per cent, as determined by the population size of approximately 61,000 beneficiaries within the target mandals.⁸ Control group sample size was selected to constitute at least 10 per cent of the test group. The sampling methodology used is as follows, where the sample size n and margin of error E are given by

$$x = Z(c/100)2r(100-r)$$

$$n = N x / ((N-1)E^2 + x)$$

$$E = \text{Sqrt}[(N - n)x/n(N-1)]$$

Where N is the population size, r is the fraction of responses of interest, and $Z(c/100)$ is the critical value for the confidence level c .

Appendix 6.3: Reports, documents reviewed

NBCFDC (2019). *Annual Report 2018-19*. Retrieved from <https://nbcfdc.gov.in/sites/default/files/sidemenu/AR2018-19-F.pdf>

Stree Nidhi. (2019). *Annual Report 2018-19*. Retrieved from https://www.streenidhi.telangana.gov.in/SNTG/Downloads/STREENIDHI_ANNUAL_REPORT_2018-19-2.pdf

Society for Elimination of Rural Poverty. Retrieved from <https://www.serp.telangana.gov.in/SHGTG/>

Raosoft Inc., Sample size calculator. Retrieved January 27, 2020, from <http://www.raosoft.com/samplesize.html>

⁸ <http://www.raosoft.com/samplesize.html>.