



*Empowered lives.
Resilient nations.*

CONSOLIDATED REPLIES ON STATE OF THE SECTOR REPORT 2012 FOR MICROFINANCE

2012

**United Nations Development Programme
New Delhi**



*Empowered lives.
Resilient nations.*

CONSOLIDATED REPLIES ON STATE OF THE SECTOR REPORT 2012 FOR MICROFINANCE 2012

**United Nations Development Programme
New Delhi**

Contents

No.	Particulars	Page Numbers
1.	Consolidated Reply on State of the Sector Report 2012 for Microfinance (Phase -1)	1 -28
2.	Consolidated Reply on State of the Sector Report 2012 for Microfinance (Phase -1)	29-59



Poverty



Microfinance Community

Solution Exchange for the Microfinance Community Consolidated Reply

Query: State of the Sector Report 2012 for Microfinance - Experiences; Examples

Compiled by [Navin Anand](#), Resource Person and [Monika Khanna](#)

Issue Date: 10 July 2012

From [Venugopalan Puhazhendhi](#), Lead Author, State of the Sector Report 2012

Posted 09 May 2012

You might have observed that in the last six years a comprehensive document on the status, issues, innovations, practices, and models of microfinance sector is released, entitled "State of the Sector (SoS) Report – Microfinance". This report has been an authentic national level document that describes the state and growth of the Indian Microfinance sector. For the past six years as part of Microfinance India Summit, SOS report has become an important annual initiative. This report has already been recognized as a reference document for the Sector both within and outside the country. To read the previous State of the Sector Reports – Microfinance, please visit: <http://www.microfinanceindia.org/content/39/state-of-the-sector-report.php>

Since last few years, I have observed that Microfinance Community – Solution Exchange has been proactively contributing in the formulation of the SoS in the form of holding specific e – discussions and roundtables wherein leading MF practitioners of the country have participated. The ideas and inputs provided by the members of the Microfinance Community – Solution Exchange were useful in making SoS a comprehensive document that highlights the present status, gaps existing in the sector and future strategies.

Since I am entrusted with the responsibility as the author of the State of the Sector report 2012, I would certainly like to give ownership of the report to the Microfinance practitioners of the country therefore request you to contribute in discussions which is scheduled in two phases. In the first phase of discussion, I request you to share:

Design and structure of the report

- Ideas and views on the structure, style and content of the report with suggestions on changes required in the current framework of the report

Products and services

- Experiences, research studies, reports and documents, innovations, and need gaps in context of various microfinance products and services* of rural and urban areas and different segments and sectors

Microfinance programmes and projects

- Views, experiences and suggestions on SHG Bank Linkage Programme, National Rural Livelihood Mission and other leading programmes and projects in context of Financial Inclusion

All information shared by community members, that are used in report would be duly acknowledged. Alike earlier years, ten best contributors would receive a copy of the book. Your contributions will help me in preparing the document that not only communicates progress and innovations tried in the Microfinance Sector but also suggests the way forward for the sector to continue with zeal towards attaining financial inclusion.

*[*Microfinance Products and services will broadly include Savings (Mandatory and Voluntary), credit (income generating loans, Emergency or consumption loans, housing loans and micro-leasing), Insurance (life, health and other insurances) and Transfer of Money (Remittances, Payment Services. While various segments will include tribal, People with Disabilities, minorities etc., sectors will include various farm as well as non-farm activities].*

Responses were received, with thanks, from

1. Hemantha Kumar Pamarthy, Vientiane, Laos PDR ([Response 1](#); [Response 2](#))
2. [P S MRao](#), Hyderabad
3. [MonikaKhanna](#), Microfinance Community - Solution Exchange, New Delhi
4. [E Varathkhanth](#), Equitas Micro Finance India Pvt Ltd, Chennai
5. [Milroy Paul](#), Habitat for Humanity India, Chennai
6. [Sandhya Suresh](#), ESAF Microfinance, Kerala
7. [SubrataSarkar](#), GraminVikas Trust, West Bengal
8. [Mani A. Nandhi](#), Jesus and Mary College, University of Delhi, Delhi
9. [Savita Shankar](#), Asian Institute of Management, Manila, Philippines
10. [GirijaSrinivasan](#), Consultant, Pune
11. [M. Chidambaranathan](#), Sampark, Bangalore
12. [DeeptiGeorge](#), IFMR Finance Foundation, Chennai
13. [DSK Rao](#), Asia-Pacific Microcredit Summit Campaign, Hyderabad
14. [N. Jeyaseelan](#), Hand in Hand, Chennai
15. [Navin Anand](#), United Nations Development Programme, New Delhi
16. [Daniel Lazar](#), Pondicherry University, Pondicherry
17. [VandanaSethi](#), Motilal Nehru College - University of Delhi, New Delhi
18. [Veerashekharappa](#), Institute for Social and Economic Change, Bangalore
19. [Mohammad Azahar](#), Hand in Hand – Chennai
20. [Jaipal Singh](#), Centre for microFinance, Jaipur
21. [PrasenjitSen](#), Mahiti, Bangalore
22. [Ritesh Dwivedi](#), Amity University, Noida, Uttar Pradesh *

**Offline Contribution*

Further contributions are welcome!

[Summary of Responses](#)
[Comparative Experiences](#)
[Related Resources](#)
[Responses in Full](#)

Summary of Responses

Summary

Members recognized that the state of the sector is an authentic and excellent document as it provides a good overview of the Microfinance (MF) sector. The report was found to be useful for MFIs, policy makers, researchers, economists and all those who are associated with the microfinance.

Giving their initial remarks, members suggested for identifying relevant issues and some common parameters for tracking progress of the sector every year and provide an analysis of the same in the report. Further, it will be useful to give a glimpse of the important events in a particular year, important circulars affecting the MF sector and regional analysis of outreach of Community based Microfinance Institutions (CBMFIs) and MFIs in the SOS report. The issues of Microfinance Institutions, Non-Banking Financial Companies (NBFCs) and Community based Microfinance Institutions could be segregated and equal weightage to each type of institution in SOS needs to be given.

Suggestions on thematic areas to be covered (eitherby having separate chapters or providing specific spaces) in the SOS report

Policy and Regulatory Environment for Microfinance: Key features of MF Bill, MF and Cooperative Acts, RBI / NABARD Regulations on savings, the Nair Committee recommendations, Malegam Committee recommendations, securitization guidelines from RBI financing and IRDA regulations on Micro insurance

Geographical Coverage of Microfinance: Rural, semi - urban and urban; slum areas, mountain and remote areas, tribal areas, extremist affected areas; and a brief on MF status in every state and UTs

Microfinance through different legal entities: NBFCs (For profit institutions), NGOs-MFIs (Not for profit institutions), Cooperatives/ Mutual Benefit organizations and Banks (Commercial banks, Regional Rural Banks, Local Area Banks and Cooperative Banks); A comparative Analysis of MF through different legal entities

Various models of Micro financing: Various Group based financing models as well as individual financing models

Micro financing for different segments of people - Economically poor people i.e. Ultra poor and BPL including women, People with disabilities (PwDs), youth, older Persons (OPs), marginal and small farmers, migrants and laborers

Micro financing for various livelihood and subsector: MF for Farm (Agriculture and Agriculture-Allied) and Non-Farm sector (Manufacturing, Vending and Trading and services)

Coverage of Government Programmes: Flagship programmes like National Rural Livelihood Mission, MahilaKisanSashaktikaranPariyojna, MGNREGA (Payments issues). Initiatives by the State Governments (directly or through partnership with NGOs), MF strategy adopted by them and challenges faced and the impact realized. Examples of the states and case studies of some states that are taking major measures for improving financial inclusion

Microfinance Plus Activities: Non-financial services especially health protection services - health education, providing access to health products and services and health related financial products, such as, health loans, health savings and health insurance. (Reference - workshop on linking health with microfinance in India organized by Microcredit Summit Campaign (MCS), Freedom From Hunger (FFH) and Indian Institute of Public Health, Gandhinagar)

Leveraging Funds - Debt, Equity and Grants -Coverage on new funding opportunities - new funding opportunities such as NCDs, ECB access and FII licences etc.; Statistics, Government/RBI guidelines and information on sources of funds

Design and Management of Microfinance Programmes and Project– Innovative Systems, Procedures and Technology: MIS, Monitoring and Evaluation, Value Chain management in Microfinance services, Mobile Phone Banking, Internet banking and other innovative technologies for management of MF activities within the projects and programme and also for providing MF services.

Suggestions on other MF subsectorsthat needs to becoveredin the SOS report

Urban Microfinance: Urban poor are often more vulnerable than rural poor due to lack of tenure rights, poor sanitation, limited access to basic services, and lower community support. The requirement of the average urban MF clients is much larger as they tend to use the loan to run their small enterprise activity.

Some of the examples of Urban Microfinance institutions given by members include -

- SEWA Ahmedabad, WWF Chennai and Sri PadmavathyMahilaAbyudayaSangh (few examples of the pioneers of urban microfinance)
- Janalakshmi and Ujjivani in Bangalore, Swadhar in Mumbai and Aajivika in Delhi, Arohan in Kolkatta and Sonata in Ahmedabad (Examples of MFIs Promoted by experienced professionals)
- Spandana, SHARE, SKS, Bandhan, BASIX, VWS and GrameenKoota etc. (examples of well-established MFIs extended their activities in Urban Areas also)

Besides the abovementioned examples, members also highlighted innovative experiment of Cuttack Urban Cooperative Bank that has successfully experimented 'Sanchayeeta' (savings) daily deposit scheme providing savings services at the door steps of the local traders. Based on UNDP India (2008) study on "Poverty Dimension in slums in Urban Madurai", members revealed that urban poor need daily savings products and also individual loans.

Members recommended for including a separate chapter on urban microfinance. This chapter may provide information on growth and spread of microfinance in urban area, clients outreach, loans outstanding, average loan size, savings, housing finance, insurance, and remittances. It should also provide information on support system, financial institutions and various support organizations.

Housing Microfinance: Keeping in view the growing demand of affordable housing in rural and urban areas and more and more MFIs diversifying their products to housing, members categorically recommended including a chapter on 'Housing Microfinance'. The chapter may cover regulations and best practices in Housing Microfinance drawn from India and other countries.

MF through CBMFIs including Cooperatives: Referring to various successful examples of SHG-cooperatives identified in the evaluation studies, members suggested for including a chapter on Community based MFI (CBMFIs) covering SHG cooperatives models as it gives women both leadership and ownership.

Suitable Microfinance Services for migrant workers: Informal sector workers, who are mostly migrants of varying duration, face innumerable hardships in their money management practices and it is imperative to address what has been the role of MFIs so far in urban areas for this huge segment of population. There is a need to design suitable/ innovative products for urban migrants in the informal sector.

Suggestions on other issues to be covered in the SOS report

Impact of MF and Consumer Protection: The report could focus on consumer protection in microfinance and how institutions are handling this. The Report may include an assessment of “impact” of financial service providers at the bottom of pyramid. Inclusion of case studies from the field or even the excerpts of the interviews with clients will reveal the impact of Financial Inclusion. The initiatives taken by NGOs/MFIs on transparency issues may also be included in the report.

Credit Bureaus: Since Credit Bureaus are gaining prominence as a means to reduce information asymmetries and NBFC-MFIs have now begun participating in the sector-level credit bureau therefore an analysis of credit bureaus in the report could be a useful input.

Clarity on Effective rate of interest: Highlighting the low level of clarity on the meaning of effective rate of interest, members gave reference of RBI’s Circular on interest rates and clarified that there are three components for pricing the micro loans viz. interest, processing fee and insurance and therefore effective rate of interest incorporates all the three components. They informed that some practitioners do not take insurance into account while calculating effective rates of interest. Members recommended bringing out more clarity on this through SOS 2012 report.

Learning from the failures: Members referred to two publications that had captured the learnings from failures in Latin America as well as in other parts of the world and suggested for having a chapter on Learning from the failures.

Perspective of the community: Mentioning about the AP crisis and its impact on microfinance, members suggested covering perspectives of community through Focus Group Discussions (FGDs). They suggested including some studies on the impact of implementation of Andhra regulation on Microfinance Services and case studies on the barriers of RBI guidelines. A ‘White Paper on Microfinance’ can also be thought as an additional booklet or a portion of report.

Members also suggested for coverage of issues related to ultra-poor; status of socio-economic inclusion of excluded communities; MF in the neighboring SAARC and ASEAN countries; North-South divide in terms of Microfinance services in context of reach and effectiveness; lenders' concerns and strategies on addressing problem of over dues and recovery; Mobile Banking Technology for the poorest; operational problems of Business Correspondents/Business Facilitators; and various development activities undertaken by various banks and associations.

SHG Bank Linkage Programme: The aspect of sustainability of SHGs and SHG-SBLP-2 initiated recently by NABARD could be covered in the the chapter on SHG- Bank linkage programme. Interviews of Lead Bank managers and NABARD District managers will be useful to know the realities in SHG-Bank linkage.

Career in MF and role of educational institutions: In last few years several educational institutions in India have added the subject of Microfinance in their curriculum / syllabus or started exclusive courses on MF and whole effect was very positive. Exclusive placement services were pressed into and aspirants could make decent careers. Micro Education Loans are also

becoming more and more popular in some parts of the country. SOS report can cover the aspect of careers in microfinance and the role of educational institutions.

Special focus on HR: Many MFIs/NGOs face higher turnover of staff due to various reasons. SoS report can document national and international best practices adopted in the field to manage this problem. The HR centric schemes of various NGOs / MFIs may also be highlighted in the report.

Microfinance Products and Services - While members suggested for introducing a separate chapter covering innovative savings, credit, micro-insurance / micro pensions, transfer of money and micro leasing products and services, they specifically mention about the coverage of the following -

- Rickshaw Bank initiatives taken by Centre of Rural Development in urban areas
- Micro Insurance/Micro Pensions related issues - Livestock Insurance Products, Micro Health insurance/ Health Mutuals and Micro Pensions
- Innovative Micro financing for various sectors - Housing Microfinance; Microfinance for Minor Irrigation and Community based Water Management Systems, Financing for Micro Enterprises and SMEs, MF for Water and Sanitation
- Transfer of payments/grants and subsidies - Members gave example of Government of Brazil's programme – 'BolsaFamilia' in context direct transfer from Government to Person (G2P). This has helped in reducing the cost incurred in transferring the payments. Mentioning about the pilots on transferring the wages under MGNREGA directly in to their bank accounts of workers, members suggested for further exploring Government to Person (G2P) transfers and its role in financial inclusion.

Overall, members examined the structure of the previous reports and suggested a new composition of the report focusing more on client's perspective and recommended many new subsectors and issues that need to be incorporated in the State of the Sector Report 2012.

Comparative Experiences

National

Multiple

Jobs for Growth (from [Mohammad Azahar](#), *Hand in Hand – Chennai*)

Hand in Hand forms Self Help Groups of women from similar socio-economic backgrounds. Women are provided training in leadership skills, group dynamics, basic arithmetic and literacy skills and then skill training and entrepreneurial development training in the specific area of skill and interest. It aims to promote the establishment of family- and group-based enterprises and facilitate forward, backward, and marketing linkages.

International

Brazil

Social Welfare Program – Transferring the Payments directly in the Bank Accounts

(from [Monika Khanna](#), *Microfinance Community - Solution Exchange, New Delhi*)

Government of Brazil initiated the payments directly into the bank accounts of the recipient of BolsaFamilia - a social welfare program of Brazil that aims to provide financial aid to poor if their

infants are vaccinated and children attend the school. This has helped in reducing the cost incurred in transferring the payments

Related Resources

Recommended Documentation

From [Monika Khanna](#), Microfinance Community – Solution Exchange, New Delhi

Social Cash Transfers and Financial Inclusion: Evidence from Four Countries

Focus Note; by Chris Bold, David Porteous, and Sarah Rotman; CGAP; February 2012

Available at <http://www.cgap.org/gm/document-1.9.56877/FN77.pdf> (PDF; 617 KB)

Presents evidence gained from a comprehensive study of four countries, namely Brazil, Columbia, Mexico and South Africa on social cash transfer payments

G2P Expanding Financial Inclusion in the Pacific Report

Report; by Matt Leonard; United Nations Capital Development Fund

Available at http://www.uncdf.org/sites/default/files/Download/PFIP_G2P.pdf (PDF; Size: 5.43 MB)

Focuses on implementation of government-to-person projects as mechanisms to enhance financial inclusion and provide cost and efficiency savings both to government and social welfare recipients

From [Deepti George](#), IFMR Finance Foundation, Chennai

Report of the Nair Committee on Priority Sector Lending

Report; Reserve Bank of India; 21 February 2012

Available at: <http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/FRNC210212F.pdf> (PDF; 1.42 MB)

Committee re-examined the existing classification and suggest revised guidelines with regard to priority sector lending and related issues

Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector

Report; Reserve Bank of India; January 2011

Available at <http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/YHMR190111.pdf> (PDF; 254 KB)

Malegam Committee was constituted by RBI to to Study Issues and Concerns in the MFI Sector

From [N. Jeyaseelan](#), Hand in Hand, Chennai

Weathering the Storm: Hazards, Beacons, and Life Rafts - Lessons in Microfinance Crisis Survival from Those Who have Been There

Paper; by Daniel Rozas; Center for Financial Inclusion at ACCION; 2011

Available at http://centerforfinancialinclusionblog.files.wordpress.com/2011/07/weathering-the-storm-center-for-financial-inclusion_final.pdf (PDF; 1.82 MB)

Paper presents seven case studies and three short overviews of MFIs who experienced crises in 2009-10

Taking the Good from the Bad in Microfinance: Lessons Learned from Failed Experiences in Latin America

Paper; by Beatriz Marulanda, LizbethFajury, Mariana Paredes and Franz Gomez; Calmeadow; June 2010

Available at <http://www.calmeadow.com/pdf/failures.pdf> (PDF; Size: 2.16 MB)

Paper analyzes examples of MFI failure in order to understand and document errors in microfinance that will offer lessons for the future

Guidelines on Fair Practices Code for NBFCs

Guidelines; Reserve Bank of India; 26 March 2012

Available at <http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/CFPCR260312.pdf> (PDF; Size: 47 KB)

RBI reviewed the guidelines and created a new category of NBFCs viz; NBFC-MFIs and also rapid growth in NBFCs' lending against gold jewellery

Fast tracking Financial Inclusion through Innovative Cooperative Models- Existing Scenario and Future Prospects (from [Navin Anand](#))

Paper; by Navin Anand

Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/res09051202.pdf> (PDF; Size: 178 KB)

Shares the possible role of Cooperatives in fast tracking the financial inclusion

Innovation in India: Microfinance and Information Systems (MIS) (from [Ritesh Dwivedi](#), Amity University, Noida, Uttar Pradesh) *

Blog; by Greg Chen; CGAP; 31 March 2009

Available at <http://technology.cgap.org/2009/03/31/innovation-in-india-microfinance-and-information-systems-mis/>

Shares the importance of Management Information System for well-managed microfinance

Recommended Organizations and Programmes

From [Hemantha Kumar Pamarthy](#), Vientiane, Laos PDR

Reserve Bank of India (RBI), Mumbai

Rural Planning and Credit Department, Central Office Building, 13th Floor, Mumbai 400 001; Tel.: 91-22- 22610261; Fax: 91-22- 22658276;

<http://www.rbi.org.in/scripts/AboutUsDisplay.aspx?pg=Depts.htm#RPCD>

Rural Planning and Credit Department of RBI formulates policies relating to rural credit and monitors timely and adequate flow of credit

National Bank for Agriculture and Rural Development (NABARD), Mumbai

Plot No. C-24, "G" Block, Bandra-Kurla Complex, P. B. No 8121, Bandra (E), Mumbai 400051; Tel.: 91-22-2653 9244; Fax: 91-22-2652-8141; nabmcid@vsnl.com;

<http://www.nabard.org/roles/microfinance/index.htm>

Apex institution providing loan funds for microfinance services in the form of revolving fund assistance to NGO-MFIs, SHG Federations and NGOs to lend to SHGs

SaDhan, New Delhi

12 & 13, 2nd Floor, MPTCD Building, Special Institutional Area, Shaheed Jeet Singh Marg, New Delhi-110067; Tel: 91-11-47174400 ; Fax: 91-11-47174405; info@sa-dhan.org; <http://www.sa-dhan.net/Default.aspx>

A forum for organisations and individuals engaged in the field of community development finance to meet, share and exchange their experiences, expertise and resources

Microfinance Institutions Network (MFIN), Haryana

216, Bestech Chambers, Sushant Lok-1, Gurgaon 122002, Tel: 91-124-4212570; contact@mfinindia.org; <http://www.mfinindia.org/>

Aims at promoting the key objectives of Microfinance in India and establishing guidelines for responsible lending and client protection in the Microfinance industry

MicroSave- India, Uttar Pradesh

B-52, Kapoorthala Crossing, Mahanagar Extension, Mahanagar, Lucknow-226006; Tel: 91-522-2335734; Fax: 91-522-4063773; <http://india.microsave.org/>

Promotes the development of a market-led and more client-responsive approach to delivering financial services among microfinance institutions (MFIs)

Asian Development Bank, New Delhi

Plot 4, San Martin Marg, Chanakyapuri New Delhi 110021; Tel: 91-11-24107200; Fax: 91-11-26870955/2419; <http://www.adb.org/countries/india/main>

A multilateral development finance institution dedicated to reducing poverty and improving living standards of people in Asia and the Pacific

Sampark, Bangalore (from [M. Chidambaranathan](#))

No. 80, Shree Nilaya, 2nd Main Road, Ist Block, Koramangala, Bangalore – 560034; Tel: 91-80-25530196; sampark@sampark.org; <http://www.sampark.org/index.php>

Aims to adopt inclusive and empowering ways of working with marginalised groups in society through influencing and informing interventions and interventions at field level

From [DSK Rao](#), Asia-Pacific Microcredit Summit Campaign, Hyderabad

Microcredit Summit Campaign, USA

1730 Rhode Island Ave., NW, Suite 400, Washington DC 20036; Tel: 1-202-6379600; Fax: 1-202-4661396; info@microcreditsummit.org; <http://www.microcreditsummit.org/>

Aims to bring together microcredit practitioners to promote best practices in the field and to stimulate the interchanging of knowledge

Freedom from Hunger, USA

1644 Da Vinci Court, Davis, CA 95618; Tel: (530) 758-6200; Fax: (530) 758-6241; info@freedomfromhunger.org; <http://www.freedomfromhunger.org/>

Aims to work with a combination of microfinance, education, and health protection to achieve a sustainable, self-help end to world hunger

Indian Institute of Public Health - Public Health Foundation of India, New Delhi

ISID Campus, 4 Institutional Area, VasantKunj, New Delhi – 110070; Tel: 91 11 49566000; Fax: 91 11 49566063; contact@phfi.org; <http://phfi.org/>

PHFI is helping to build institutional capacity in India for strengthening education, training, research and policy development in the area of Public Health

Hand in Hand, Chennai (from [N. Jeyaseelan](#), Hand in Hand, Chennai)

No 12/26, 3rd floor, "Coats Villa" Southern Foundation, Coats Road, T Nagar, Chennai 600017; Tel: 91-44-42127560; vaishna.roy@hihseed.org; <http://www.hihseed.org/>

Aims to eliminate poverty through an integrated community development programme

Insurance Regulatory and Development Authority (IRDA), Hyderabad (from Navin Anand, UNDP, New Delhi)

3rd Floor, ParisramaBhavanam, Basheerbagh, Hyderabad – 500004, Andhra Pradesh; Tel: 91-040-66820964/789768; Fax: 91-040-66823334; <http://www.irdaindia.org/>

Insurance regulatory body set up to protect the interests of the policyholders and to regulate, promote and ensure orderly growth of the insurance industry

Recommended Communities and Networks

Banking with the Poor Network, Singapore (from [Hemantha Kumar Pamorthy](#), Vientiane, Laos PDR)

<http://www.bwtp.org/>; jacklordrubillar@fdc.org.au

Works towards building efficient, large-scale sustainable organizations, through co-operation, training and capacity building

Related Consolidated Replies

State of Sector Report for Microfinance, from N. Srinivasan, Lead Author of the 'State of Sector Report – 2008', Pune (Experiences; Examples).Microfinance Community, India,

Issued 2 July 2008. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-09050801.pdf> (PDF, Size: 154 KB)

Provides information about the successful experiments done in different areas of microfinance and also suggestions of developing future strategies

State of Sector Report 2009 for Microfinance, from N.Srinivasan, Lead Author of the State of Sector Report – 2009, Pune (Experiences; Examples).Microfinance Community India,

Issued 26 August 2009. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-26060901.pdf> (PDF,Size: 340 KB)

Seeks inputs on innovative models, best practices and need gaps in the microfinance sector and suggestive framework for the State of Sector Report 2009

State of Sector Report 2010 for Microfinance, from N.Srinivasan, Lead Author of the State of the Sector Report – 2010, Pune (Experiences; Examples). Microfinance Community India

Issued 02 August 2010. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-24051001.pdf> (PDF: Size: 254 KB)

Seeks inputs on innovative models, best practices and need gaps in the microfinance sector, themes to be covered in the report and the suggestive framework for the State of Sector Report 2010

State of the Sector Report 2011 for Microfinance, from N.Srinivasan, Lead Author of the State of the Sector Report – 2011, Pune (Experiences; Examples). Microfinance Community India

Issued 15 September 2011. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr-public/cr-se-mf-11071101-public.pdf> (PDF; Size: 125 KB)

Seeks views on style and content of State of Sector Report Microfinance 2011. Also captures inputs on the new developments, innovations, area specific issues and best practices

Responses in Full

Hemantha Kumar Pamorthy, Vientiane, Laos PDR *(response1)*

At the outset, Hearty Congratulations Mr. Puhazhendhi!

The earlier State of the Sector Reports, over a period, have constantly developed so much in structure and content that not much of a space or scope might be left for furthering betterment and yet change being the only constant, we may look forward to different presentation styles, maybe?

From my side, in addition to the routine information, I would suggest a little more space on activities of MF in the neighbouring SAARC and ASEAN countries in comparison with the sector in India and how the developments in these countries can be emulated or avoided for obvious reasons.

Similarly, may be an ideal amount of space can be reserved for the various development activities undertaken by banks and associations like RBI, NABARD, ADB, Sa-Dhan, MicroSave, MFIN, BWTP et al for the sector.

A chapter on the future of careers in MF sector, in India, can be thought of perhaps?

P S M Rao, Hyderabad

The State of the Sector Reports has really been providing excellent information on microfinance industry in India.

Together with further updating, I think, it would be useful to give adequate space in the ensuing report for the comparative analysis of the impact of different types of microfinance institutions on the lives of poor. It is necessary to see what exact changes the microfinance could bring.

It is to be seen if the deployment of credit through different agencies (viz. for profit MFI, V.O operated ones , SHG-Bank linkage type etc.), which essentially follow different methods in terms of size of the group rate of interest quantum of loan, methods of recovery, purpose of loan etc., yielded different results? Is there any marked difference on the ultimate economic impact with the change of lending agency? If so, why?

There can also be some studies focused on the social and economic dimensions of the collectivism of Self Help Groups in order to make suggestions for their further improvement.

While the collective strength of the women – become possible through self-help movement - helped them face the challenges with such an enormous level of confidence that could never be imagined to be possible before the advent of this movement, have also resulted in some unsavory, though isolate, incidents. For instance, the members of the SHG groups in a village in Nalgonda district of Andhra Pradesh have killed two persons burning them alive. The reason for the ghastly action was their suspicion on the victims practicing black magic.

The lesson: developing the SHG movement and ensuring the collective action should go hand in hand with educating the poor against superstitions. Rather the goal should be to channel the collective strength for the welfare of the society. In fact the SHG is an excellent medium for education and literacy.

My support to self-help movement is more on account of the women's empowerment facilitated through working in groups than the economic gains to the members. My idea is that the social change thus brought out will automatically lead to economic uplifting.

But I am disturbed at the incidents like those I quoted above. However, this should not deter us from taking the movement to further heights. The solution to the problem lies, in fact, in further strengthening the movement through creating better awareness and improving the literacy levels of the SHG members.

To this end, in depth studies are necessary. It is not good to conceal the disease if any without timely treatment. Instead it should be identified early and a preventive approach should be adopted.

I request Mr. Puhazhendhi to consider these ideas and examine if some studies could be undertaken for incorporating them in the report.

Monika Khanna, Microfinance Community - Solution Exchange, New Delhi

Congratulations Mr. Puhazhendhi for the new role. Please see below my views on the issues raised in the query.

Design and Structure of Report

Since SoS is the most referred document in Microfinance sector in India, I would like to suggest to identify relevant issues that can be tracked year after year by the State of the Sector Report. This will help in making SoS a one stop document for Microfinance issues in India and yearly analysis will help the practitioners to really understand the State of the Sector and the progress of the sector, so far.

Some of the issues for this purpose could be - Glimpse of the important events in a particular year, Government's initiatives – new flagship programmes and/or schemes rolled out (aimed at/have a component of financial inclusion), important circulars affecting the MF sector and regional analysis of outreach of CBMFIs and MFIs.

Also there is a possibility of segregating the issues of Microfinance Institutions, NBFCs and Community based Microfinance Institutions, as the geneses of each institution and their issues are very different to each other. Equal weightage to these institutions will reflect an unbiased perspective.

Moreover, I feel that there is a need to bring in the **perspective of the community** as well. This can be communicated through case studies from the field or even the excerpts of the interview with household/individual to bring forward the positive impact of Financial Inclusion in the lives of the poor. This communication is important not to defend the sector or propagate the importance of microfinance but to highlight the importance of linkages of financial services with the wellbeing of the individuals/families.

Somewhere in the MF sector, credit as a product has been given much attention and we have missed the good work done by many organizations in extending other financial products like Pensions, Insurance and remittance services. Recognizing the innovative work by such organizations needs to be highlighted in the SoS.

Products and Services

In terms of product and services, I feel there is a need to include **transfer of payments/grants and subsidies** besides other regular MF products in the state of the sector report. There is growing focus and attention of the Government towards transferring the social grants and to find alternatives for transferring the subsidies (LPG, kerosene and fertilizers) to poor as direct transfers. There are similar experiences available from other countries as well. For example - Government of Brazil initiated the payments directly into the bank accounts of the recipient of BolsaFamilia (a social welfare program of Brazil that aims to provide financial aid to poor if their infants are vaccinated and children attend the school). This has helped in reducing the cost incurred in transferring the payments.

In Indian context also, I think for the microfinance sector there is a need to explore the **Government to Person (G2P)** transfers and its role in financial inclusion. Already there are pilots on transferring the wages of the MGNREGA workers directly in to their bank accounts rather than in-person. In the coming years, the G2P transfers will bring focus on reaching the unbanked and remote areas through financial accounts. For this to happen, this requires more innovations at the ground so that money can reach the poor in a transparent manner with ease and low cost.

In this regard, you may be interested in looking at - Social Cash Transfers and Financial Inclusion: Evidence from Four Countries (available at: <http://www.cgap.org/gm/document-1.9.56877/FN77.pdf>) and G2P Expanding Financial Inclusion in the Pacific Report - http://www.uncdf.org/sites/default/files/Download/PFIP_G2P.pdf. Moreover, recently Ministry of Finance – GoI has released Report of the Task Force on an Aadhaar-Enabled Unified Payment Infrastructure - http://finmin.nic.in/reports/Report_Task_Force_Aadhaar_PaymentInfra.pdf

E Varathkanth, Equitas Micro Finance India Pvt Ltd, Chennai

The State of the Sector report has provided a comprehensive view of the sector for the past few years. Since RBI has now notified MFI-specific regulations, the author may consider allotting one section on RBI regulations and MFIs' compliance to these regulations. In particular, NBFC-MFIs have now begun participating in the sector-level credit bureau. That could be a good area to focus on. This focus will help readers understand MFIs' adherence to the regulations and its impact thereof. *(Views expressed here are personal)*

Milroy Paul, Habitat for Humanity India, Chennai

I would like to congratulate Mr. Puhazhendhi for taking the baton from Mr. Srinivasan, to author the State of the sector Report 2012. I wish him all the best.

The entire Microfinance fraternity is grateful and indebted to Mr. Srinivasan for his whole hearted involvement and dedication in bringing out well documented and authentic State of sector reports during past few years. Hope Mr. Srinivasan's expert guidance and contribution will continue to be available to all the Microfinance stakeholders.

While the State of the sector reports, in the past, have covered and included all areas of Microfinance in India, I suggest you to give an in-depth and wider coverage on the following topics, which, I think are very relevant to the MFI sector, in the present scenario:

1. I suggest a separate chapter on **"Leveraging Funds - Debt, Equity and Grants"**. As you are aware, MFIs (both for-profit NBFC-MFIs and not-for-profit NGO-MFIs) are finding

extremely difficult to leverage funds for their operations, from the various sources, especially post-AP crisis. This is the core concern of most of the MFIs today and a write-up, supported by statistics, Government/RBI guidelines and information on the following will be useful to them:

- **Sources of funds (Debt, equity and grants):** Commercial, private and foreign banks, Wholesale Microfinance funders, Venture capitalists, social investors, donors, HNWIs etc. The list of such source organizations, qualifying or eligibility norms, rate of interest and other terms/conditions of these funding agencies, may be discussed briefly here.
 - **Capital infusion/build-up through FDI route**
 - **External commercial borrowings (ECB)**
 - **Off-balance sheet financing structures** - like **Portfolio-buyout, securitization, partnership model** etc
 - **Subordinated debt**
 - **Any other**
2. On the **Products and Services**, I would suggest you to include '**Housing Microfinance**' which is slowly gaining momentum, because of the huge demand for 'affordable' housing from the rural and urban poor in India. The topic was included in the State of Sector Report 2010 (page 49, 50 and 51) wherein the challenges and opportunities of Housing Microfinance were discussed. With more and more MFIs diversifying their products to Housing, and with emerging of few stand-alone Housing Microfinance/Micro mortgage institutions, I think a revisit to the 'Opportunities and challenges of Housing Microfinance in India', following the RBI regulations and Bills, will be of greater use to those MFIs or Housing Finance companies, who wish to do Housing Microfinance. Best practices in Housing Microfinance, drawn from India and other countries may be highlighted

[Sandhya Suresh](#), ESAF Microfinance, Kerala

Best wishes to Mr. Puhazhendhi as he takes the responsibility to author the SoS report which is one of the most referred document among the stakeholders associated with MF sector in India and even overseas.

One would definitely look forward to read more case studies from the field especially the best practices from the MFIs. The innovations in terms of new loan products and its features could be added.

In invitation to MFIs with a simple format could be given wherein they are in a position to indicate their best practice along with the challenges and opportunities. Such an exercise will enhance the possibilities for understanding and piloting more replicable models.

[SubrataSarkar](#), GraminVikas Trust, West Bengal

It's a good opportunity to share our feedback on framework of MF, SOS -2012, as we were used to do in previous years. To me following subjects should be taken in to consideration while preparing the SOS-2012:

- Under chapter SHG- Bank linkage , special emphasis needs to be given on sustainability of SHGs and the SHG-SBLP -2 concept , recently initiated by NABARD
- In MFI section, MFI its outreach to the hard core poor could be taken in to consideration
- Recent MF Bill and its "would be impact" on CBMFI may be included

- Financial Inclusion through SHGs - the latest status in regard to Socio-economic inclusion of socially excluded community
 - Issues concern for Micro finance - sustainability , outreach and profitability
 - Technology in MF - major obstacles for huge diffusion of Mobile Banking Technology for the poorest, operational problems for BC/BF and the possible way out.
-

Mani A. Nandhi, Jesus and Mary College, University of Delhi, Delhi

It has been a wonderful experience of learning about the SOS through Mr. Srinivasan's reports in the past few years and one looks forward to the next report with another expert taking over the authorship.

One area that needs deeper focus is about micro financial services for migrant workers in the informal urban sector in India. Informal sector workers, who are mostly migrants of varying duration, face innumerable hardships in their money management practices and it is imperative to address what has been the role of MFIs so far in urban areas for this huge segment of population; are these segment/s in the radar of MFIs in urban areas and is there a half-hearted attempt only to cover these workers to achieve financial inclusion targets?; and the need for designing suitable/ innovative products that need to be designed for urban migrants in the informal sector.

Savita Shankar, Asian Institute of Management, Manila, Philippines

In response to the query by Mr. Puhazhendhi on the report, my suggestion is as follows:

The crisis in the state of Andhra Pradesh has brought to the fore the need for financial literacy of microfinance borrowers. The state of the sector report can highlight the kinds of financial literacy initiatives available for MFI and SHG borrowers currently. If possible it can try to estimate the outreach of financial literacy training vis a vis the outreach of microfinance lending in the country.

GirijaSrinivasan, Consultant, Pune

On the structure and content:

A separate chapter on micro insurance

A chapter on lenders to MF and their views on the recovery of the sector. With mounting over dues in SBLP and MFI lending, capturing the lenders' concerns and strategies will be useful.

Micro finance programmes:

There are some states which are priority states for financial inclusion. States like Meghalaya are taking major measures for improving financial inclusion. A case study of state's strategy and efforts can be presented for enthusing other states.

M. Chidambaranathan, Sampark, Bangalore

Responding to the query raised by Mr. Venugopalan - SoS report 2012, we felt a chapter on Community based MFI (CBMFIs) in this year's report will be important to add, particularly SHG cooperatives models, as this is the most empowering form of microfinance, indeed the only one that gives women both leadership and ownership.

As part of our evaluation studies we have found examples of SHG-cooperatives engaged in financial intermediary as well as social development for the poor. Sampark has been worked with cooperative model for over seven years, and have rich lessons to share with the larger community. There are other SHG-federation models that are successful at the community level. It is important to recognize this growing model, and analyze both positive and negative of how this model contributes to empowering the women.

We would be happy to share our experiences on cooperative model for this year's report, if the report provides a special focus on CBMFIs. Recently, we have conducted a state level study on the status of SHGs and their federations in Karnataka, and have conducted state level workshop with SHG federation/cooperative leaders, NGOs, Bankers and government organizations on the status of SHGs in Karnataka. We can send you the outcome of these two activities for enriching this year's SOS report.

Deepti George, IFMR Finance Foundation, Chennai

Our inputs for the State of the Sector Report 2012 are as follows:

- Overall, the Report should focus on the range of financial services – credit, insurance, pensions, savings etc. Focus on credit is constricting and does not provide a complete picture.
- The Report should include an assessment of “impact” of financial service providers at the bottom of pyramid. It should also dwell on regulatory and legislative actions and their impact on poor households.
- There should be a focus on consumer protection in microfinance and how institutions are handling this. Perhaps, there is a need for metrics to measure consumer protection that MFIs should report on regularly. This is something that can be put into place now, so that the metric can be captured from now on and reported as part of the SoS Report.
- It is also useful to have a section that exclusively focuses on the broader policy and regulatory environment and its impact on the sector. For instance, this year the discussion could be about the MFI Bill, the Nair Committee recommendations, Malegam Committee recommendations, Securitisation guidelines from RBI, and so on.
- A comparison between MFIs and SHGs can be attempted, in terms of geographic exposure, penetration of credit as well as other products through these channels, as well as the extent of outreach.
- Once the MFI Bill gets passed in its current form, there will be changes to the regulatory environment (ex. Response from ICAI on auditor certificate) as well as cost implications (ex. Such as to the cost of funds). A section could examine these aspects.
- Interviews can be carried out with practitioners on the difficulties/reaction to the new environment. Such interviews should ideally cover MFIs (small, medium, large), funders, banks and regulators.

- Since Credit Bureaus are gaining prominence as a means to reduce information asymmetries, their cost implications, operational aspects, effectiveness, and dropout rate (if any) can be incorporated in the report.
- The report can also attempt to establish a single format covering governance practices, reporting formats, and MFI –level data analysis, to go out to funders for ease of understanding.
- A section dedicated to new funding opportunities that the sector can increasingly look forward to, such as NCDs, ECB access and FII licences would also be relevant.

DSK Rao, Asia-Pacific Microcredit Summit Campaign, Hyderabad

Please see below my suggestions for the State of the Sector (SoS) report:

1. Integration of Microfinance Plus Activities:

It is widely acknowledged that the very poor need more than microfinance to address the causes and conditions of their poverty. Ideally, the poor would have access to a coordinated combination of microfinance services and other development services to improve business, income and assets, health, nutrition etc. More and more MFIs are realizing the importance of social empowerment and are showing keen interest to add non-financial services to their microfinance operations. **State of the Sector Report may consider adding a separate chapter for this segment.**

Perhaps the most important add-on for MFIs to consider is health protection services (health education, providing access to health products and services and health related financial products, such as, health loans, health savings and health insurance). The SoS may consider adding one non-financial activity each year to the report, starting perhaps with health integration, for which already sufficient body of knowledge exists in Indian microfinance sector.

Microcredit Summit Campaign (MCS), Freedom From Hunger (FFH) and Indian Institute of Public Health, Gandhinagar (IIPHG) organized an unique workshop at Ahmedabad last year, titled, **“Linking Health and Microfinance in India: Improving Incomes and Promoting Universal Health Care Access for the Poor”** which was participated by experts from both health and microfinance sectors, besides, donors, apex institutions, researchers etc. The workshop discussed the best practices of health integration in India being practiced by MFIs and identified exciting potential for these two sectors to come together. Corollary to this workshop is the state of the practice report, titled, **“Integrated Health and Microfinance in India: Harnessing the Strengths of Two Sectors to Improve Health and Alleviate Poverty”**, prepared by the workshop organizers which will be released in the last week of June, at New Delhi.

2. Government Sponsored Programs:

In the last few years, more and more State Governments are promoting SHGs and linking them to banks very aggressively under various programs. SHGs formed by the State Governments, either directly or through partnership with NGOs have significant proportion. It will be interesting to have a case study of one State Government (preferably a State which has taken up this activity only recently but has made significant progress) discussed in detail, identifying the strategy they have adopted, challenges faced and how overcome and the impact realized.

3. Perspective of the community:

So much has been written about the AP crisis and its impact on microfinance. We have captured the views of all stakeholders, ranging from regulators, bankers, investors, researchers, consultants etc. Very little has been gathered from the community.

It will be interesting to have a few focus group discussions carried out in a few villages of AP to understand the perception of these erstwhile MFI clients as to what they feel about the sector now. A wealth of very useful information could be gathered by skillful facilitation of such FGDs.

N. Jeyaseelan, Hand in Hand, Chennai

State of the Sector Report – Microfinance is more useful to all stakeholders and it is a highly valued document, for which our Solution Exchange - MF community contributions are significant over the years. I would like to make the following suggestions for the current year MF - SoS report 2012.

1. **Learning from the failures:** The following two publications had captured the learnings from failures in Latin America as well as in other parts of the world, which helps a lot.
 - i. Weathering the Storm: Hazards, Beacons, and Life Rafts Lessons in Microfinance Crisis Survival from Those Who Have Been There By: Daniel Rozas, Centre for Financial Inclusion, USA.
 - ii. Taking the Good from the Bad in Microfinance: Lessons learned from Failed Experiences in Latin America By: Beatriz Marulanda, LizbethFajury, Mariana Paredes& Franz Gomez
Indian Micro finance sector has undergone a turbulence/crisis since Oct 2010. This is a good case for learning. We can document the failures happened during this crisis and learn lessons out of it. The SoS may devote a special chapter on Learning from the failures.
2. **Studies focusing on Outcome of MF programs:** Many bankers comment that most of the SHG members are not using the micro loans for productive purposes. Socially oriented organizations are keen to track the outcome rather than the number of loans given alone. As Hand in Hand's mission is women empowerment through job creation, we have carried out a study on our MF program's outcome through a reputed external agency. The top-line results on job creation have been highly commendable. Once the full report is ready, Hand in Hand would make it available for the SE members. SoS report can highlight such studies, which will give solid evidence for the positive impacts of the program and this would convince the bankers / lenders / investors to commit to the sector for long term.
3. **Clarity on Effective rate:** RBI in its circular indicated three components for pricing the micro loans viz. Interest, Processing fee and Insurance. Likewise, in the latest circular (dated 26th Mar 2012) on Fair Practice codes for NBFC MFIs (available [here](#)), RBI has mentioned that effective rates be indicated to the clients in the loan pass book also. But, it has not defined the effective rate. Normally, effective rate means it is the total cost incurred by the client that is interest, processing fee and insurance. But, some practitioners do not take insurance into account as it is not an income to the MFI, but only pass through entry and calculate effective rate considering interest and processing fee only. SoS report can bring out a clarity on this by talking to regulator and lenders. This will enable comparison of effective rates among MFIs and will help the client to make an informed choice.

4. **Income ceiling as a barrier for graduation:** As per the RBI guidelines (May 2011) on qualifying assets, the loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000. This acts as a barrier to the clients who are in third, fourth and subsequent loan cycles. The Lead author shall prepare some case studies on clients who are in third loan cycle and above and present the case highlighting increase in income in subsequent loan cycles so as to convince the regulator to make necessary changes i.e. this rule may be made applicable for only entry level clients in the first loan cycle.
5. **Focus on quality of SHGs:** Many bankers comment generally that the quality of SHGs is coming down as the number of SHGs is on the rise. Some NGOs/ MFIs are investing more resources on improving / maintaining the quality of SHGs. I have heard a case, wherein one RRB has reduced one percentage interest rate for SHGs of a particular NGO from its normal rate of lending, as the NGO maintains the quality of groups for the last two decades intact. This kind of risk based pricing by bankers will be a good incentive to NGOs / MFIs who invest substantial resources. Hand in Hand Group also has introduced some measures to improve the quality of SHGs. The SoS can document such initiatives and highlight in the report for wider dissemination in the sector so that more Bankers will take a positive look at such initiatives and will consider for risk based pricing for such NGOs/MFIs.
6. **Special focus on HR:** Many MFIs/NGOs face higher turnover of staff at Loan officer level and in many cases they exit after committing frauds or they exit taking some of their groups also with them and form new NGOs. SoS can document the best practices adopted in the field to manage this problem. SoS can also document the international best practices in this regard, which will help the practitioners to a great extent. The HR centric schemes of various NGOs / MFIs may also be highlighted in the report.

Navin Anand, United Nations Development Programme, New Delhi

Since last few years, the publication of State of the Sector Report on Microfinance has been recognized as an authentic national level document on Microfinance. The high level of acceptability and recognition to State of the Sector Reports confirms the outstanding work done by Mr. Srinivasan during these years. It is good to know that this year also the report is being written by a very sincere researcher, practitioner and thinker – Dr. Venugopalan Puhazhendhi.

Since the SOS document is widely used by a heterogeneous set of practitioners, professionals and researchers, it is important that the report caters to the needs of one and all. In terms of utilization of the report for designing and implementing MF projects, undertaking research work and making or modifying policies, it will be useful to think about aggregation of information and more than that disaggregation of information so as to do justice to all. Keeping the possibilities of disaggregating information in the background, I would like to suggest the following themes and subthemes that will facilitate designing the structure of the report –

Microfinance Products and Services: There can be a separate chapter covering innovative savings, credit (including Housing Microfinance, Micro financing for environment friendly livelihood and consumer assets), micro insurance/ micro pensions, transfer of money and micro leasing products and services.

Geographical Coverage of Microfinance: The geographic coverage of the microfinance activities could be in terms of rural, semi/peri urban and urban micro financing. Besides broader geographic classification, the report can also cover initiatives of micro financing in slum areas, mountain and remote areas, tribal areas, extremist affected areas. This year, it will be useful if

we can make an attempt to give a brief of MF situation in each state/ Union Territory of the country. A separate chapter on Microfinance in Urban and semi urban areas will also be useful.

Inclusion of different subsets of people: In context of financial inclusion, it is important to cover various subsets of people availing MF or having demand for Microfinance Services. Besides women, the report can cover MF issues related to People with Disabilities (PwDs), Youth, Older Persons/Senior Citizens, Marginal and Small Farmers, Migrants, Laborers and different type of economically poor people i.e. Ultra poor, BPL and APL

Micro financing for different Livelihood Sectors and Sub-Sector: Linking microfinance with different livelihood activities is useful as needs of different sectors are varying. There can be a separate chapter on MF for various livelihood sectors that may cover - Microfinance for Farm (Agriculture and Agri.-Allied) and Non-Farm Activities (Manufacturing, Vending and Trading and services). Within each sector there can be glimpses of various sub sectors such as microfinance for Cotton, Sugar Cane etc. (Agriculture); MF for Diary, Poultry, Fisheries etc. (Agriculture Allied); and Micro financing for Handlooms, Handicrafts, information Kiosks, Tourism etc. (Non-Farm Sector).

Design and Management of Microfinance Programmes and Project – Innovative Systems, Procedures and Technology: There can be a separate chapter devoted to this particular aspect. Management of microfinance activities includes - MIS, M&E, Value Chain management in Microfinance services etc. Technology is increasingly being used in Mf sector for various purposes. It incorporates Mobile Phone Banking, Internet banking and other innovative technologies for management of MF activities within the projects and programme and also for providing MF services.

Micro financing through Different Legal Entities: One way of classifying different organization engaged in MF could be - informal, semiformal and formal microfinance institutions (CGAP provides a wonderful framework adopting this classification). In addition to this, formal financial institution can further be classified as per their legal form such as - NBFCs, NGOs/MFIs/MFIs under Section 25 Companies, Cooperatives, and Banks (including Commercial banks, Regional Rural Banks, Local Area Banks and Urban Cooperative Banks).

Policy and Regulatory Environment for Microfinance: In the present scenario, it will be useful to have a separate chapter on Policy and regulatory environment of Microfinance. The chapter could cover status and key features of MF Bill, MF and Cooperative Acts, RBI / NABARD Regulations on savings and financing /IRDA regulations on Micro insurance and other relevant regulations.

Arrangement of finance and financial assistance for variety of MFIs: The sources of funding in case of NBFCs, Cooperatives, NGO-MFIs and other entities could be different. It also depends on the design of the programme therefore an analysis of the same will help in suggesting future strategies. Issues of cross subsidization can also be captured in this chapter.

Various models of Micro financing: There are various model of Micro financing in India. An analysis of various models will give a fair idea about the features that are conducive or detrimental to the sector. The analysis could be both in terms of services to the clients as well as sustainability of MFIs. This section may also cover group financing models as well as individual financing models.

Separate chapter on Community based Microfinance Institutions and Cooperatives: Besides the above mentioned suggestions on the structure of the State of the Sector Report, I would also like to mention that there is a need to incorporate a separate section on community

based microfinance institutions that can cover financial cooperatives as well. This seems logical in two terms – microfinance sector is coming back on track and CBMFIs/Financial Cooperatives will play a more prominent role now; and UN has declared this year as international year of cooperatives.

In order to strengthen the need for coverage of cooperatives in the SOS 2012 report, I would like to share one of my papers -“Fast tracking Financial Inclusion through Innovative Cooperative Models – Exiting Scenario and Future Prospects”, presented in the third national Seminar on‘Microfinance: Issues and Challenges’. The paper was **published in the Journal – The MicroFINANCE REVIEW** (A half yearly journal of Bankers Institute of Rural Development, Lucknow). To read the paper, please click [here](#).

I would like to share some of the issues that Microfinance Community of Practice has covered during last three years -

Micro Insurance: Designing Livestock Insurance Products for Poor; Micro insurance – Micro Health insurance; appropriate legal entity for Health Mutuals; A National Regulatory Framework for Microfinance Sector, Micro Pensions,

Policy , Regulatory and structural Issues in MF: Microfinance (Development and Regulation) Act 2010; Malegam Committee Report on Microfinance; RBI Guidelines for Mobile Phone Banking; and National federation of SHGs

Urban Microfinance: Financial Inclusion of Urban Poor and Issues Related to Identification, Microfinance Services for Urban Poor in Jammu and Kashmir

Microfinance for particular segment of poor: Livelihood and Microfinance Project Proposal for People with Disabilities (PwDs), Microfinance for Small Farmers through Exclusive Agriculture Credit Cooperatives and JLGs, Microfinance Services for the Migrants, National Policy for Older Persons

Flagship Programmes: National Rural Livelihood Mission, MahilaKisanSashaktikaranPariyojna, Payments issues related to MGNREGA

Innovative Micro financing for various sectors: Housing Microfinance; Micro Leasing Vulnerable and Small Entrepreneurs, Microfinance for Minor Irrigation and Community based Water Management Systems, Financing for Micro Enterprises and SMEs, MF for Water and Sanitation

Financial inclusion : Microfinance through Post Offices for Financial Inclusion, Speeding Financial Inclusion through a Common Strategy, Strengthening Cooperative Acts in Context of Financial Inclusion and Micro Finance; Empowering CBMF Institutions for Poverty Alleviation and Women Empowerment,

We will be happy to share consolidated replies of these discussion. It will provide a good background of the qualitative information on each issue.

[Hemantha Kumar Pamarthy](#), Vientiane, Laos PDR(response2)

From 2004 till about 2010, very good interest was evinced by several educational institutions in the country, where either Microfinance was added to the existing curriculum / syllabus, or exclusive courses were developed to cater to the requirements of a growing sector / industry across the country. The effect was so positive, that many institutions could conduct

visiting lectures, seminars, internships, campus interviews, recruitment and research opportunities in the sector. Exclusive placement services were pressed into and aspirants could make decent careers.

But with the fallout of the Andhra episode, there was a felt decline in choosing microfinance as a study subject in several institutions across the country. Prospective students were no more fanciful towards the subject. Just graduated students were worried of their future which was rosy hitherto and all of a sudden was no more so picturesque. I know, because I lecture (rather was) in several institutions.

And for existing employees in many of the institutions, especially those under the scanner, their career path was no more a guaranteed one. Suddenly Placement consultants had more applications looking for better pastures but shortage of jobs as institutions were waiting and watching the turn of events. Again, I know because of the sudden spurt of people trying to establish contacts and see how best, things can happen to their now doubtful careers and uncertain future.

It is keeping all these factors in mind and also that Human Resources are important for any sector, I had suggested that a comprehensive study may be undertaken in general and with a focus on the fallout of the Andhra Episode on the Human Resources side of the sector.

Such a study report in the sector would go very well in re-establishing confidence and to ensure adequate Human resources for the future. So, I request Mr. Puhazhendhi to devote some time for a study on the HR factor and space in the report, please.

[Daniel Lazar](#), Pondicherry University, Pondicherry

Thanks Navin for your mail asking members to provide themes and subthemes to be part of SoS report.

In addition to all these, I feel there is need for special mention or portion about the lessons learned for future of micro finance industry. There is a need for official statistics about the deaths or losses in micro finance industry. Otherwise everyone is left with quoting figure of their choice to prove their point of view.

White paper can be thought as an additional booklet or a portion of report towards this cause may make the report credible as it is in tune to time.

[VandanaSethi](#), Motilal Nehru College - University of Delhi, New Delhi

State-of sector report is a highly valued document especially for researchers like me who have been using it for the valuable and comprehensive information that it provides on microfinance sector. In my response I am concentrating on Urban Microfinance.

While rural microfinance has been given a lot of importance in terms of funds flow and studies, the urban microfinance had been neglected for long with plenty of poor and vulnerable people living in the urban areas and more of rural population migrating to urban and semi-urban areas in search of livelihood access to finance has been a critical need.

A report by United Nations Population Fund reveals that by year 2030, 40.7 percent of India's population will be urban. A gap in financial services in urban areas, though less than in rural is huge. A number of finance companies, a few urban cooperative societies and banks as also

several credit and saving mechanism have been present in urban areas, but still, the level of exclusion has been high. The RBI on its part is also concerned with the high exclusion levels in the urban areas. In context of the financial inclusion, urban micro financing becomes an important agenda to be addressed.

As for the Urban population, the All-India Debt and Investment Survey (NSSO 2003) reported that dependence on the institutional sources of lower asset holding classes (AHC's) is considerably less compared to higher AHC's and to the corresponding classes in rural sector. A national level impact evaluation study by Economic Development Associate (EDA 2004), observed that nearly 77% of micro-credit clients are in rural sector.

Urban poor are often more vulnerable than rural poor due to lack of tenure rights, poor sanitation, limited access to basic services, and lower community support. Frequent migration from locality to locality in search of livelihood is quite common. These changes in residence create problems for compliance with know your customer (KYC) norms as well as client-tracking and monitoring. There is also reluctance of urban clients to subject to kind of discipline that is required both in case of Grameen and SHG models. Periodic and regular meetings, group-based decision making and so-forth are difficult as it disrupt their daily livelihood activities. The requirement of the average urban MF clients is much larger as they tend to use the loan to run their small enterprise activity. Also the urban attraction entices the borrowers to squander away hard-earned money on luxuries and the repayment of loans takes a back seat. However, the urban areas have the advantage of being technology friendly in terms of infrastructure and adaption skills and high population density so that MFIs outreach can be expanded at lower cost. MFIs hence need to design their products and services according to needs and requirements of urban poor.

In the recent past there has been upsurge of interest in urban microfinance. There are number of initiatives taken up by varieties of NGO-MFIs in order to provide microfinance services to urban poor. Not only MFIs, but also the banking system has woken to the potential of microfinance clients in urban areas. Urban MFIs can be classified as the following. One, several Startups in the metros, promoted by professionals have proven track record of successful careers in banking and other fields - Janalakshmi and Ujjivani in Bangalore, Swadhar in Mumbai, Aajivika in Delhi. Other startups are being promoted by microfinance professions who already have some experience in rural microfinance but feel challenged by the relatively unfamiliar territory of large-scale urban microfinance. eg. Arohan in Kolkatta, Sonata in Ahmedabad. Both set of entrants are part of what have been referred to as a "generational change: in Indian microfinance. These "new generation" urban MFIs have much greater ambitions in respect of scale. The second set of entrants, the Rural Converts, is mostly moving into urban microfinance from the contiguous rural areas example: Spandana, SHARE, SKS, Bandhan, Basix, VWS, GrameenKoota etc. their initial and average loan size is higher than in their rural operations and this is where they are introducing larger, individual loans to micro entrepreneurs, both of which are advantageous from the point of view of profitability

The third set, the increasing number of **existing NBFC's and banks** getting interested in downscaling, are an extremely heterogeneous bunch. Among the former are Satin Creditcare in West Delhi which is best known for its system of doorstep daily collections, even though average loans size is currently as high as Rs. 27,000. Among commercial banks, Indian Bank's Micro-state branch in Chennai is unusual in being a bank branch in an urban area which provides loans to SHGs. It is in fact doing SHG-bank linkage in an urban area. There is renewed interest in **the pioneers** of urban microfinance such as SEWA, WWF and SPMS, whose experience over the years is being reexamined by the new comers for net valuable lesson that they offer. The pioneers have stayed relatively small. SEWA Bank has expanded much more rapidly in respect of savings and insurance services in an urban context as well as on credit products such as housing

loans and individual loans generally, are of great interest. Sri Padmavathy Mahila Agyudaya Sangh (SPMS) is country's first SHG federation and also one of the few federations located in an urban area. It has become self-sufficient in respect of financial activities, although it receives grants for a variety of economic development activities, including participation in urban infrastructure activities such as housing, environmental sanitation and even road building

Recognizing the diversity of occupational, economic and social backgrounds and very different financial requirements, group lending becomes suboptimal in the urban context. As a delivery vehicle SHG's (instead of JLG's) would also be affected by the mobility and time scarcity related constraints of urban life, perhaps even more so, since SHGs have more members than JLGs, which should make it even harder to find a time for meetings suitable for all members, and increase the likelihood of at least one member moving out of the locality. One response to urban mobility and heterogeneity has been to do away with center meetings, altogether and experiment with smaller sized JLGs, more suited to accommodating the diversity of occupation, loan size requirement and time availabilities. Both Janalakshmi and Ujjivan in Bangalore and Aajivika in Delhi have moved away from SHGs and settled for smaller groups (JLGs). The next logical step of course is to do away with JLGs altogether & introduce individual loans. The advantage of individual loans is that they can be more easily tailored to the loan size, gestation period and other cash flow requirements of the specific activity chosen by each borrower. Many MFIs have in fact already been making individual loans (for example: BASIX, VWS, SPANDANA etc.). For most MFIs individual loans are still a small part of their portfolio, except for SEWA Bank, the MFI with the longest experience in India of individual loans. The experience is mixed and as noted above there are several examples of successful use of SHGs. For MFIs striving to attain rapid growth however, JLGs give it more control over loan size and frequency and this may be one of the decisive considerations in favor of the latter in most cases.

UNDP India (2008) study on "Poverty Dimension in slums in Urban Madurai" revealed that in urban areas borrowers do not have a cash flow problem, unlike in rural areas. The average income for urban households was at least Rs. 5000 per month. This income was reduced to less than Rs. 1500 per month because households were spending their income on luxury items. Such learnings can help organization to better design their microfinance programmes in efforts to alleviate urban poverty. For urban clients, there is need to offer daily savings products. Additional research also highlighted the successful experience of 'Sanchayeeta (savings) daily deposit scheme of Cuttack Urban Cooperative Bank (CUCB), which began with the intention of tapping poor urban trader's earnings on a daily basis. CUCB's experience illustrates how saving schemes are successful when tailored to suit the member's cash flow pattern and nature of employment. Study by Microfinance India (2006) has provided some early insights into the financial needs of the urban poor. The study collected primary data from two cities of India - Delhi and Hyderabad and found the average indebtedness of an urban household was Rs 22,534 indicating ever higher loan size demand as well as demand for small loans (<Rs 5000). Most large size loans are for entrepreneurial activities and small size loans for consumption and emergency purposes. There is a large potential market for saving services as 69% of the households in the overall sample save. 60% of the active savers save less than Rs 1000 a month and only 55% of all monthly savings is parked in an institutional setup, formal or informal. The urban client values trust, easy access, familiarity and esteem and pride over financial considerations. Lack of awareness of service offerings, feeling of having insignificant needs, past refusal by formal sources and the fear of exorbitant charges by informal sources deter those who do not access formal financial services today. Low interest rates, low collateral and faster loan processing are preferred attributes. Data reveals an overwhelming preference for individual loans. These studies highlight the growing demand for savings, credit and other microfinance products and services in the urban areas.

With the above background, I would like to make the following suggestions for the current year Microfinance-State of the Sector report 2012 and the subsequent reports.

- There should be separate chapter focusing exclusively on urban microfinance. It should focus on how urban microfinance is different from rural microfinance in terms of its structure, market dynamics, clientele and lending methodology.
 - It should provide information on the growth and spread of microfinance in urban area in various parts of India.
 - It should provide information on support system, financial institutions and various organizations facilitating urban microfinance.
 - Also there is lack of data on urban microfinance, so this chapter should also provide data on clients outreach, loans outstanding, average loan size, savings, housing finance, insurance, remittances, MFI's and Banks involvement in urban areas
-

Veerashekhara, Institute for Social and Economic Change, Bangalore

Dr.Puhazhendhi has been getting suggestions on this year's SoS and the suggestions are focused on what is to be included and what not to include.

This time, it may contain more sections and more material than earlier reports due to high expectation from the members. I feel it should not be mere informative based on results furnished by other organizations. Rather, it should bring out its own stand, based on analytical work. There is a need to scrutiny the results obtained by other organization, based on methodology, authenticity of the data used for the studies. In all there should be professionalism in the report. The author should have couple of meetings across regions with scholars before finalizing the approach to the SoS. The sector is entering from infant stage to next stage, hence members expect much more from this report.

Mohammad Azahar, Hand in Hand – Chennai

SoS is an authentic document on Microfinance sector. I appreciate Mr. Srinivasan for his outstanding work and heartily congratulation to Dr. Venugopalan Puhazhendhi for his new role.

Since last six years, SoS is recognized as a reference document for the sector both within and outside the country. In this perspective, I would like to share some important links and suggestions for the current year MF - SoS report – 2012.

Design and structure of the report:

- Looking for case studies on the failure of SGSY in the context of SHG so that the practitioner will learn from the failure
- Looking for interviews of Lead Bank managers and NABARD District managers so as to know the realities in SHG-Bank linkage.
- Differences should be measured with Government formed SHGs i.e. SHGs formed under ICDS and SGSY and other SHGs formed by NGOs/MFIs.

Product and Services:

Increasing in number of products is not only the option for microfinance plus activities. Strengthening the existing products should help in retaining the existing clients. Rickshaw Bank was one of the initiatives taken by Centre of Rural Development in urban areas. For more information please visit: <http://www.crdev.org/cs2.html>

Microfinance programmes and projects:

- When loans are given to women for asset creation and income generation, it increases their status and strengthens their position in the family. SoS can highlight the Hand in Hand 'Jobs For Growth (SHG)' Model which is focus on Self-Help Group (SHG) and Microfinance Project to alleviate rural poverty and empower women. For more details on this, please visit: [http://www.hihindia.org/handinhand/our_model/the_five_pillar_programme/jobs_for_growth_\(shg\)/case_studies/?detail=true&ew 15 a id=388578¤t=388578&pos=1](http://www.hihindia.org/handinhand/our_model/the_five_pillar_programme/jobs_for_growth_(shg)/case_studies/?detail=true&ew 15 a id=388578¤t=388578&pos=1)

Suggestions:

- Special focus on the quality of SHGs so repayment rate should increase and it attracts to Bankers. Some of the NGOs/MFIs has introduced some measures to improve the quality of SHGs. SoS can highlight such initiatives.
- SoS may add a chapter on Microfinance plus activities because mostly MFIs are showing interest in Microfinance plus activities (non – financial services) to their Microfinance practices.
- The main reason behind the SHGs inactiveness is lack of transparency. SoS can document the initiative taken by NGOs/MFIs on transparency.
- Prepare some case studies on the barriers of RBI guidelines.
- Highlight development activities undertaken by associations.

Jaipal Singh, Centre for microFinance, Jaipur

The State of Sector report is very useful document. It should not only give the status of the sector but should also provoke the thinking of practitioners and policy makers for strengthening the sector. I would like to put following suggestions for the writer:

- There should be two different sections in the report- one on MFIs and the other on community based microFinance (SHGs and SHG federations)
 - The report should give a good comparative analysis of both models so that stakeholders can make a informed choice to engage with any of the model of their liking
 - There are various 'impact assessment studies' available on both the models and a section should be devoted to the impact assessment. People should know if the microfinance is creating any significant impact on lives of poor.
 - There are various issues that SHG movement is facing. Though usually NABARD takes credit for the spread of the movement but in reality, NABARD had not much interface with almost 95% of the SHGs and SHG Federations promoted by state governments and NGOs. With the circular of SHG - 2 also many of the real issues are yet to be addressed. For example the issue of quality of the institutions and investments needed for bringing quality. The issue of the SHG-bank linkage and what role NABARD has (or can have). In my opinion there is a need for new generation institutions to provide credit to SHGs, especially for livelihoods.
 - Experiences of the bridge financing institutions like KDFS, Sanghmitra, NABFIN and others should be brought in the report to suggest a way forward on this.
 - There are a few new initiatives on livelihood finance for peoples collectives- may be a good analysis of that would also be useful.
-

Prasenjit Sen, Mahiti, Bangalore

The State of the Sector Report is a good overview of the sector scenario helping MFIs, Policy makers, economist and all those who are associated with this field of economics.

If The Report take a step further from Mr. Navin Anand's suggestion about "Design and Management of Microfinance Programmes and Project – Innovative Systems, Procedures and Technology", and present an impact studies on use of technology both managed and cloud based its short comings and challenges, it would ultimately benefit the end user of the process the SHG member or the borrower.

The report might give a direction about the sectors technology package requirement, enabling a better transparency and effective management.

Taking this opportunity to second Mr. Jaipal Singh's suggestion about two different sections of the report, this will provide us a chance to look at the sector from two different angles.

Ritesh Dwivedi, Amity University, Noida, Uttar Pradesh *

SOS has been a very important tool for a range of professionals as a guiding and learning document. There has been extensive information relating with latest experiments, intervention, training opportunities as well as new projects. I would like to suggest inclusion of some specific issues within the structure of current SOS –

Design and structure of the report

- Some studies on the impact of implementation of Andhra regulation on Microfinance Services can be included to clear the air as many versions of views are floating about this. It will good to know the actual ground situation.
- Some space can be given to the North-South divide in terms of Microfinance services' reach and effectiveness.

Products and services

- Cases related with Micro Insurance (specifically Micro Health Insurance), Micro Leasing and Remittances should be given adequate space. Micro Education Loans are also becoming more and more popular in some parts of the country. This all should be highlighted in the SOS.

Microfinance programmes and policies

- Different new initiatives taken by different bodies like NABARD, Commercial and Cooperative Banks should be covered in this valuable report. Central Government has cleared the draft of the Microfinance Bill to be tabled in Parliament. This draft can also be presented through this report. Some Pilot programs running with innovative methods can also be incorporated in this report. One similar article "Innovations in India: Microfinance and Information System" can be availed on: <http://technology.cgap.org/2009/03/31/innovation-in-india-microfinance-and-information-systems-mis/>.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange for the Microfinance Community in India at se-mf@solutionexchange-un.net.in with the subject heading "Re: [se-mf] Query: State of the Sector Report 2012 for Microfinance - Experiences; Examples. Additional Reply."

Disclaimer: *In posting messages or incorporating these messages into synthesized responses, the UN accepts no responsibility for their veracity or authenticity. Members intending to use or transmit the information contained in these messages should be aware that they are relying on their own judgment.*



Copyrighted under Creative Commons License "[Attribution-NonCommercial-ShareAlike 3.0](https://creativecommons.org/licenses/by-nc-sa/3.0/)". Re-users of this material must cite as their source Solution Exchange as well as the item's recommender, if relevant, and must share any derivative work with the Solution Exchange Community.



Solution Exchange is a UN initiative for development practitioners in India. For more information please visit www.solutionexchange-un.net.in



Poverty



Microfinance Community

Solution Exchange for the Microfinance Community Consolidated Reply

Query: State of the Sector Report 2012 for Microfinance - Experiences; Examples(Phase II)

Compiled by [Navin Anand](#), Resource Person

Issue Date: 10 September 2012

From [Venugopalan Puhazhendhi](#), Lead Author, State of the Sector Report 2012

Posted 21 June 2012

Dear members,

You might have observed that in the last six years a comprehensive document on the status, issues, innovations, practices, and models of microfinance sector is released, entitled "State of the Sector (SoS) Report – Microfinance". This report has been an authentic national level document that describes the state and growth of the Indian Microfinance sector. For the past six years as part of Microfinance India Summit, SOS report has become an important annual initiative. This report has already been recognized as a reference document for the Sector both within and outside the country. To read the previous State of the Sector Reports – Microfinance, please visit: <http://www.microfinanceindia.org/content/39/state-of-the-sector-report.php>

In order to get the deeper understanding of the microfinance issues, a query on State of the Sector Microfinance 2012 was shared with the members of the MF Community – Solution Exchange. In the First Phase of the discussions, the focus was on Design and Structure of the report, Products and Services and MF projects and programmes. The ideas and inputs provided by the members of the Microfinance Community – Solution Exchange were useful in making SoS a comprehensive document that highlights the present status, gaps existing in the sector and future strategies. In the next phase of the discussion, I request the members of the Microfinance Community to share their valuable suggestions on:

Social and Financial Performance Management

- What are the initiatives that have been taken up by organizations/institutions for protecting the consumers/clients availing MF services and how far these initiatives are effective at client's level?

Policy and Regulatory Environment for Microfinance

- How far the proposed policy and regulatory initiatives contribute to the growth and performance of the MFIs in India? What are the necessary changes required for the smooth functioning of the MFIs in India?

Innovative Experiments / Success stories of financial inclusion

- What initiatives have been taken up by various institutions for the financial inclusion of the people living in remote areas and how far these efforts have contributed for effective inclusion?

All information shared by community members, that are used in report would be duly acknowledged. Alike earlier years, ten best contributors would receive a copy of the book. Your contributions will help me in preparing the document that not only communicates progress and innovations tried in the Microfinance Sector but also suggests the way forward for the sector to continue with zeal towards attaining financial inclusion.

Responses were received, with thanks, from

23. [Aloysius P. Fernandez](#), NABFINS, Bangalore
24. [Navin Anand](#), UNDP, New Delhi
25. [R. Sunil](#), Consultant Economist, Mumbai
26. [Subhash C. Wadhwa](#), Mumbai
27. [Hemantha Kumar Pamorthy](#), Vientiane, Laos PDR
28. [Tara Nair](#), Gujarat Institute of Development Research, Ahmedabad
29. [Madhurima Jaiswal](#), Member, SIFE SRCC, New Delhi
30. [D. Lazar](#), Pondicherry University, Pondicherry
31. [Resham Singh](#), Punjab Gramin Bank, Punjab
32. UshaGopinath, Accion, Bangalore([Response 1](#); [Response 2](#))
33. [Sandhya Suresh](#), ESAF Microfinance, Thrissur-Kerala
34. [Sashi Kumar](#), CARE India, Tiruchirappalli
35. [Sanjeev Kumar](#), The Goat Trust, Lucknow
36. [Madhu Sharan](#), Consultant Microfinance and Livelihoods, New Delhi
37. [Sachin Kumar](#), IIMPS, Noida
38. [Alka Parikh](#), DAIICT, Gandhinagar
39. [RanganVaradan](#), MicroGraam, Bangalore
40. [Ajimon.L](#), EMFIL, Kanyakumari
41. [Veerashekhharappa](#), Institute for Social and Economic Change, Bangalore*
42. [Rajesh Kumar Verma](#), Microfinance Consultant, Khajuraho, Madhya Pradesh*

**Offline Contribution*

Further contributions are welcome!

[Summary of Responses](#)
[Comparative Experiences](#)
[Related Resources](#)
[Responses in Full](#)

Summary of Responses

In the second phase of discussion on State of the Sector [report](#), the focus has been on policy and regulatory environment, social and financial performance management and innovative experiments/success stories of financial inclusion.

In context of the coverage, members highlighted the importance of three environments that exist in the microfinance sector - macro/external, intermediary or meso-level and micro environment. Members also find it rational to classify these three environments as – policy environment, provider environment and user environment. While members stressed on appraising the sector from users' perspective, they appreciated the importance of technology as a facilitator to achieve the desired goals.

Social and Financial Performance Management : Emphasizing on the importance of covering social and financial performance management (SPM) in the report, members felt that a right blend of SPM cannot be achieved unless the senior management is keen to support social performance management in the way as they support financial performance management. Members appreciated the initiatives of socially committed MFIs that focus on socio-economic growth of the clients. Such initiatives add to the retention rates of the clients.

Members suggested MF stakeholders to accept the globally established 'universal standards of social performance' and recommended for acknowledging and rewarding practitioners who adhere to the standards. MFIs should also be supported with some grants to develop SPM systems. Members also felt that social performance without financial performance is not sustainable however it is important that MFIs avoid exploiting the poor when they are trying to become financially sustainable. The only way to have a balance between financial and social performance would be to encourage more and more social funding, stipulating a blend of realistic and sustainable social and financial terms and conditions.

Customer service and code of conduct: Members quoted examples of [MFIs](#) such as Ujjivan, Grameen Financial Services, Arohan etc. that have institutionalized industry code of conduct as well as RBI's fair practice code into their day-to-day operations and staff training modules. Many MFIs have even incorporated client protection and service guidelines into their monitoring and internal audit functions. The staff members who violate code of conduct and client protection guidelines have to bear penalties and other career related disadvantages. Through different networks, some institutions are sharing the names of the staff terminated due to fraud or violation of code of conduct. Few organizations also run staff refresher training to reiterate the importance of customer service and code of conduct. MFIs have even formulated and implemented whistle blowers policy to keep the employees' identity confidential who reports the improper behavior of staff in violation of code of conduct and customer service.

Policy and Regulatory Environment for Microfinance: RBI has been playing a lead role in regulating and supervising the MF sector. Some of the recent initiatives of RBI include – categorizing NBFC engaged in micro financing as NBFC-MFIs and attaching importance of priority lending with this category; defining target clientele, extending the facility of RTGS or NEFT to all the rural cooperatives/bank branches through its nodal clearance house at Mumbai; responding to the AP crisis by submitting affidavit in the AP High Court against the act of AP government; and setting guidelines on multiple borrowing etc. Members suggested that in order to make improvements in the circulars related to MF, RBI may seek feedback from MF associations and networks.

Members recognize that a good MF Act will impact financial inclusion goals and will boost the lenders and equity investors to revive the stagnancy in the sector. Government has recognized the role of MFIs in financial inclusion space, however, Micro Finance Institutions (Development and Regulation) Bill, 2012 is yet to be cleared.

Regulations and Community Based MFIs: Discussing about the impact of regulations on community based microfinance institutions (CBMFIs), members shared that the decrease in Banks' financial exposure towards microfinance sector has also affected CBMFIs as they also depend on formal financial services.

Micro finance for Street Vendors: Members mentioned about an earlier discussion on street vendors in Solution Exchange wherein microfinance issues related to street vendors were covered. The issues covered under the discussion incorporates savings services for street vendors especially system of daily collection; loan schemes, including innovative example of daily loan scheme; possibilities of micro leasing; Mobile phone banking arrangements; strengthening BC model for providing better services to street vendors; feasibility of promoting Joint Liability Groups (JLGs) for street vendors; possibilities of forming cooperative bank of vendors; and micro insurance as well as micro pensions needs and initiatives for street vendors.

Innovative Experiments / Success stories of financial inclusion

Successful cases of Business Correspondent model: There have been many innovations in the field of credit offerings for small business and micro-enterprises. Besides there have been umpteen efforts by the Banking Correspondents and MFIs to offer money transfer, pension services to their target clientele i.e. mainly organized sector workers and self-employed low income population. [Business Correspondents](#) such as FINO, EKO, ALW, Oxigen have been using innovative models and technologies to offer money transfer services. It would be good to incorporate few case studies on viable BC Models.

Equity Based Models: Members shared innovative equity based models like - '[MicroVenture investment model](#)' initiated by MicroGraam. Equity based models provide solutions to a number of problems that loan-based programs are having such as loan defaults due to decline in the business, stress of high rates of interest on clients and problems of cash flows faced by micro entrepreneurs due to strictly structured loan repayment schedules etc. The role of micro-venture capital provider is not limited to providing equity financing but also giving professional advice and mentoring to the micro-entrepreneur.

Micro Pensions: In the pension domain, members mentioned about [IIMPS](#) that exclusively works to offer micro-pension for the working poor in South Asia. It has been able to subscribe lakhs of unorganized sector workers, small and micro entrepreneurs through SHG and JLG models managed by SHPIs, NGOs and MFIs.

Microfinance services to the Rickshaw pullers: Members shared an innovative microfinance-centric social entrepreneurship project "[Life on Wheels](#)" which aims at financial inclusion and overall upliftment of rickshaw pullers. The microfinance model is based on the concept of Joint Liability. Linkages are created with a nationalized bank to provide loans to the rickshaw pullers under a specially designed 'Jan Mitra scheme', wherein the poor can open no frills savings accounts. While financial literacy is an important component of the project, life insurance of the rickshaw pullers is done through JanshreeBimaYojna of LIC and asset insurance is provided through Oriental Insurance Company.

Livestock risk management and insurance: Members shared an innovative experiment of financial inclusion in the area of integrated services and risk management financial services for goat farming. The experiment supported by Sir Dorabji Tata Trust (SDTT) is done by '[The Goat Trust](#)' along with its five partners in Bundelkhand and eastern Uttar Pradesh. They have facilitated a Goat farmers led community insurance named as SamudaiSurakshaYojana (SSY) to provide integrated financial services. Some of the distinct features of present services are - No indirect cost of insurance access and claim settlement; Door step registration, claim verification

and payment; complementary services of vaccination, de-worming and regular health checkup of goats; free training on membership, claim process and improved goat management.

Coverage of Regional Rural Banks: While members suggested for including a separate chapter or a section on Regional Rural Banks in SOS 2012, members also shared key outputs of a discussion held on RRBs in Solution Exchange –

- RRBs are better placed to provide customized financial services to the rural people by evolving innovative financial products and mechanisms such as - engaging local youth as agents, opting for BCs or adopting technology based options like mobile phone banking, biometric cards etc.
- RRBs can also play pivotal role in facilitating Flagship programmes by undertaking financial literacy initiatives as well as facilitating in transfer of money

Focus on Financial Literacy: Quoting examples of various studies done on financial literacy including OECD survey study carried out across 13 countries, members highlighted the low level of financial literacy and suggested for a comprehensive research on financial literacy in India. They also suggested for collection of empirical evidences that shows the impact of financial literacy programs. Referring to the financial bulletin of RBI, members also stressed on the need of addressing the issue of non-availability of standardized material of financial literacy.

Members shared two innovative [experiments](#) of Accion pertaining to client education - Business training through dialogue for building business skills of micro entrepreneurs; and financial literacy to help low-income clients to better manage their personal and household finances and become informed and effective consumers of financial services. Members also highlighted successful partnerships with CSR wings or foundations of various companies for financial literacy initiatives.

Giving the [example](#) of NABFINS, members felt that microfinance can be sustainable and continue to be poor friendly. It gives practical approach to microfinance without sacrificing the main mission statement of most of the MFIs i.e. helping and empowering the poor. Further, members recognized the importance of 'Microfinance Plus' activities for better productivity of credit and empowerment of poor. Members recommended [NABFINS](#) experiment of sustainable Resource centers for studying and adopting by others with need based variations.

Besides specific suggestions, members also suggested the following –

- A compilation of the results of the studies carried out on micro finance to indicate the impact on the members of the saving groups and other benefits generated
- Cover savings led MF models and the best practices adopted for sustainability
- Come out with a comprehensive report once in three years by engaging some eminent scholars
- A five year comparative analysis on the status and functioning of CBMFIs
- Provide a critical reflection on the broad trends and patterns observed over the past 20 years
- Include innovative success stories of women's entrepreneurship and empowerment

In the nutshell, members shared innovative experiments related to financial inclusion and suggested measures for strengthening policy and regulatory environment as well as systems for social and financial performance management.

Comparative Experiences

Multiple States

Portfolio Approach for the benefits of diverse clients (from [Aloysius P.Fernandez](#))

Working on improving the lives of the disadvantaged and poorer sections of the society, NABFIN supports sustainable livelihoods of rural and urban poor in both agriculture and non-farm sectors by providing a variety of microfinance services. It extends loans to farmers, artisans & individuals; SHGs, JLGs and a range of collectives and other organizations. Loans are extended directly as well as through Business Correspondents / Business Facilitators at reasonable rates.

Microfinance Services to goat farmers(from [Sanjeev Kumar](#))

In order to provide microfinance services to the goat farmers, 'The Goat Trust' with support of Sir Dorabji Tata Trust along with five partners provides integrated financial services especially livestock insurance services to the goat farmers. Around 1020 goats are already covered under the insurance scheme and more than 24 cases of claims settled. Due to the active role of intermediary organizations, the time of claim settlement is less than 20 days)

Delhi

Micro financial Services to Rickshaw Pullers (from [MadhurimaJaiswal](#))

Through a microfinance-centric social entrepreneurship project "Life on Wheels" a range of microfinance services such as savings, credit and Micro insurance are provided to rickshaw pullers. No frills savings accounts are created and credit services are provided through a special scheme - 'Jan Mitra Scheme'. Life insurance of the rickshaw pullers is done through JanshreeBimaYojna of LIC. The insurance of rickshaw is also done through an asset insurance scheme of Oriental Insurance Company. In 52 weeks, Rs. 250 per week is collected from a rickshaw puller and after that the rickshaw becomes the asset of the rickshaw Pullers.

Karnataka

An alternative to traditional Microcredit Model (from [Ajimon.L](#), EMFIL, Kanyakumari)

MicroVenture investment model is an alternative to the traditional microcredit lending options wherein a micro-entrepreneur and a micro-venture capitalist enter into a revenue sharing agreement, which enables the two partners to create a micro enterprise and upscale it to a small enterprise (MSE). The marginalized people are linked with venture capitalists so that the problem of capital for their venture is solved and risks are minimized. MicroGraam functions as a catalyst and intermediary in the whole process.

Related Resources

Recommended Documentation

From [Aloysius P. Fernandez](#), NABFINS, Bangalore

Master Circular on SHG Bank Linkage programme

Master Circular by Reserve Bank of India; 12 July 2012

Available at: <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/87MCSHB300612.pdf> (PDF; 58.50 KB)

Incorporates the existing guidelines/instructions on the subject and updates the circulars issued by Reserve Bank on the subject up to June 30, 2012

SHG2: Revisiting the SHG Bank Linkage Programme

Circular on SHG bank Linkage Programme (SHG2) ;27 March2012

Available at: <http://www.nabard.org/fileupload/DataBank/Circulars/SHG%202%20circular.PDF>

Provides information about the revised guidelines for the SHG Bank linkage programme including system of collection of voluntary savings by SHGs

Guidelines on Fair Practices Code for NBFCs

Guidelines; Reserve Bank of India; 26 March 2012

Available at <http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/CFPCR260312.pdf> (PDF; Size: 47 KB)

RBI reviewed the guidelines and created a new category of NBFCs viz; NBFC-MFIs and also rapid growth in NBFCs' lending against gold jewellery

Index of the Consolidated Replies with Links (from [Navin Anand](#), Microfinance Community, Solution Exchange)

List of CRs with Links; Microfinance Community of Practice; April 2012

Available at: ftp://ftp.solutionexchange.net.in/public/mf/resource/MF_CR_Index.pdf

Provides list of all the discussions that have taken place on various themes on Microfinance Community of Practice

From [UshaGopinath](#), Accion, Bangalore

Micro-Entrepreneurial Training: Holistic approach towards entrepreneurship

Module of Dialogue on Business Program; Accion, Bangalore

Available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/res21061201.pdf> (PDF; Size:1.32 MB)

Provides conceptual background and details of Business training through Dialogue on Business for building business skills of micro entrepreneurs

Obstacles and Opportunities: Financial Literacy need of the hour

Module of Financial Literacy Program; Accion, Bangalore

Available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/res21061202.pdf> (PDF; Size:1.26 MB)

Provides details financial literacy programme that aims at helping low-income clients better manage their finances and become effective consumers of financial services

Standardized operating Process for Community Insurance(From [Sanjeev Kumar](#), The Goat Trust, Lucknow)

Operating Process for Community Insurance;The Goat Trust, Lucknow

Available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/res21061203.pdf>

Provides a standard operating process (SoP) for an innovative goat farmers' led community insurance initiative

From [Navin Anand](#), Microfinance Community, Solution Exchange

State of the Sector Report 2011

Status of Microfinance in India; Access Development Services, New Delhi

http://www.microfinanceindia.org/download_reports/sos_2011.pdf

Highlights the present status, gaps existing in the microfinance sector and future strategies

Recommended Organizations and Programmes

From [Aloysius P. Fernandez](#), NABFINS, Bangalore

Reserve Bank of India (RBI), Mumbai

Rural Planning and Credit Department, Central Office Building, 13th Floor, Mumbai 400 001; Tel.: 91-22- 22610261; Fax: 91-22- 22658276;

<http://www.rbi.org.in/scripts/AboutUsDisplay.aspx?pg=Depts.htm#RPCD>

Rural Planning and Credit Department of RBI formulates policies relating to rural credit and monitors timely and adequate flow of credit

National Bank for Agriculture and Rural Development (NABARD), Mumbai

Plot No. C-24, "G" Block, Bandra-Kurla Complex, P. B. No 8121, Bandra (E), Mumbai 400051; Tel.: 91-22-2653 9244; Fax: 91-22-2652-8141; nabmcd@vsnl.com;

<http://www.nabard.org/roles/microfinance/index.htm>

Apex refinancing institution providing loan funds for microfinance services to Banks, NGO-MFIs, SHG Federations and NGOs to lend to SHGs

NABARD Financial Services Limited, Bangalore

190, RashtriyaVidyalaya Road, Jayanagar 2nd Block, Bangalore-560004; Tel: 26563443 / 26574222; Fax :+91 80 26563442; <http://nabfins.org/Products>

A NBFC promoted by NABARD works in partnership with NGOs and different collectives to provide microfinance services to individuals/institutions, SHGs/JLGs and other groups

Microfinance Institutions Network (MFIN), Haryana

216, Bestech Chambers, Sushant Lok-1, Gurgaon 122002; Tel: 91-124-4212570; contact@mfinindia.org; <http://www.mfinindia.org/>

Aims at promoting the key objectives of Microfinance in India and establishing guidelines for responsible lending and client protection in the Microfinance industry

Insurance Regulatory and Development Authority (IRDA), Hyderabad (from Navin Anand, UNDP, New Delhi)

3rd Floor, ParisramaBhavanam, Basheerbagh, Hyderabad – 500004, Andhra Pradesh; Tel: 91-040-66820964/789768; Fax: 91-040-66823334; <http://www.irdaindia.org/>

Insurance regulatory body set up to protect the interests of the policyholders and to regulate, promote and ensure orderly growth of the insurance industry

From [MadhurimaJaiswal](#), Member, SIFE SRCC, New Delhi

Students in Free Enterprise

Level 3, Neo Vikram, Above AudiCar Showroom, New Link Road, Andheri West, Mumbai-400053, India; Tel: 91-22-6198-4949; Fax: 91-22-6198-4950; <http://www.sifeindia.org/>

Brings together a network of students, professionals and industry leaders around the mission of creating a better, more sustainable world through the power of business

Indian National Trust For Art and Cultural Heritage (INTACH)

71, Lodi Estate, New Delhi, 110 003; Tel:91-11-24631818/ 24641304; Fax: 91-11-24611290;
<http://www.intach.org/about.asp>

A non-profit organization set up in 1984 to involve its members in protecting and conserving India's vast natural, built and cultural heritage

From [UshaGopinath](#), Accion, Bangalore

Center for Financial Inclusion at Accion

1401 New York Avenue, NW, Suite 500, Washington, DC 20005 USA; Tel: 202- 393-5113; Fax: 202 - 393-5115; <http://www.centerforfinancialinclusion.org/>

Facilitates in bringing about the conditions to achieve full financial inclusion around the world by using a toolkit that moves from thought leadership to action

ESAF Microfinance (from [Sandhya Suresh](#))

Hepzibah Complex, Mannuthy P.O. Thrissur, Kerala, India; Tel: 91- 0487 2373813; Fax: 91- 0487-2373813; <http://www.emfil.org/>

Engaged in micro-financing and creation of self sustainable groups to address the concerns of poverty alleviation and employment generation

The Goat Trust, Lucknow (from [Sanjeev Kumar](#))

529 Ka.54A Khurram Nagar, Lucknow, Uttar Pradesh; Tel:0522-4102995; <http://www.goattrust.org>

Strengthens small livestock based livelihoods for marginal farmers and landless families by providing integrated risk management financial services including goat insurance

From [Sachin Kumar](#), IIMPS, Noida

Ujjivan Financial Services Pvt. Ltd.

93, Jakkasandra Extension, Sarjapur Main Cross Road, 1st Block, Koramangala, Bangalore 560034; Tel: 91- 80- 4071 2121; Fax: 91-80-4146 8700; <http://www.ujjivan.com/>

Provides financial services to the economically active poor, to help alleviate poverty and focuses on a set of social performance indicators developed by involving industry leaders

Grameen Financial Services Pvt. Ltd

26, Srinivasa Archada, Srinidhi Layout, Opp. Srinidhi Public School, Chunchanaghatta, Bangalore - 560078, India; Tel: 91 - 80- 28436237; Fax: 91- 80- 28436577; <http://gfspl.in/code-conduct>

Provides a range of microfinance services including credit and insurance and follows the Fair Practices Code of RBI and also the codes of conduct of Sa-Dhan, MFIN and GFSPL.

Arohan

'Prafulla', 195/1, Rajdanga Chakrabortipara, Kasba, Kolkata, 700 107; Tel: 91- 33- 40156000; <http://www.arohan.in/code-of-conduct/>

Provides group and individual credit products tailored to the needs of women and have institutionalized industry code of conduct and RBI's fair practice code

Eko India Financial Services Private Limited

547 Mandakini Enclave, Alaknanda, New Delhi - 110019, India; Tel: +91-11-26278267;
<http://www.eko.co.in/>

An organisation committed to extending banking facilities in untapped / unbanked areas by using a technology of money transfer through mobile phones

FINOFintech Foundation

601 & 602, A Wing, Godrej Colesium, Sion Road, Mumbai-400019;

<http://fino.co.in/Business-Correspondents-Services>

FINO's BCs specialize on ground technology and cash management capability; they are well placed to bring the base of the pyramid citizen under the financial inclusion umbrella

ALW (A little World)

T-951, 5th Floor, Belapur Railway Station Commercial Complex, Tower-4, Sector 11, CBD Belapur

Navi Mumbai - 400 614; Tel: +91- 22 -3951 3888; Fax: 91- 22 -3951

3801; <http://www.alittleworld.com/htmls/alw/vision.html>

Touch a billion people through innovative technologies and alliances for delivering multiple financial services at the lowest cost through mainstream financial institutions

Oxygen Services India Pvt. Ltd.

257, UdyogVihar, Phase – I, Gurgaon - 122016 Haryana (India);

Tel: 91-124-3950100/3950110; Fax: 91- 124 – 4362151; <http://www.myoxygen.com/>

Payments solutions provider, who aggregates and distributes a plethora of services including first full service eWallet from State Bank of India called MobiCash

Invest India Micro Pension Services, Noida

D26, Sector 3, Noida 201301; Tel: 91-120-4663900; Fax: 91-120-4232122; info@iimp.in;

<http://www.micropensions.com/front-page>

Uses a proprietary "micro-pension" model to enable and encourage the working poor in developing countries to achieve a dignified retirement through thrift and self-help

MicroGraam, Bangalore (From [RanganVaradan](#))

427, 5th cross, J.P.Nagar 3rd phase, Bangalore - 560 078; Tel: 91-80-

65791390; <http://india.micrograam.com/>

Adopts MicroVenture investment model for providing finance to micro-entrepreneurs by linking them with micro-venture capitalists

Related Consolidated Replies

State of Sector Report for Microfinance, from N. Srinivasan, Lead Author of the 'State of Sector Report – 2008', Pune (Experiences; Examples). Microfinance Community, India,

Issued 2 July 2008. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-09050801.pdf> (PDF, Size: 154 KB)

Provides information about the successful experiments done in different areas of microfinance and also suggestions of developing future strategies

State of Sector Report 2009 for Microfinance, from N.Srinivasan, Lead Author of the State of Sector Report – 2009, Pune (Experiences; Examples). Microfinance Community India,

Issued 26 August 2009. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-26060901.pdf> (PDF, Size: 340 KB)

Seeks inputs on innovative models, best practices and need gaps in the microfinance sector and suggestive framework for the State of Sector Report 2009

State of Sector Report 2010 for Microfinance, from N.Srinivasan, Lead Author of the State of the Sector Report – 2010, Pune (Experiences; Examples). Microfinance Community India

Issued 02 August 2010. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-24051001.pdf> (PDF: Size: 254 KB)

Seeks inputs on innovative models, best practices and need gaps in the microfinance sector, themes to be covered in the report and the suggestive framework for the State of Sector Report 2010

State of the Sector Report 2011 for Microfinance, from N.Srinivasan, Lead Author of the State of the Sector Report – 2011, Pune (Experiences; Examples). Microfinance Community India

Issued 15 September 2011. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr-public/cr-se-mf-11071101-public.pdf> (PDF; Size: 125 KB)

Seeks views on style and content of State of Sector Report Microfinance 2011. Also captures inputs on the new developments, innovations, area specific issues and best practices

State of Sector Report 2012 for Microfinance, from Venugopalan Puhazhedhi, Lead Author of the State of the Sector Report – 2012, New Delhi (Experiences; Examples). Microfinance Community India

Issued 10 July 2012. Available at <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-10072012.pdf> (PDF; Size: 436 KB)

Seeks inputs on structure of the report, products and services in the microfinance sector, and Microfinance programmes and projects

Livelihood and Microfinancing Issues of Street Vendors, from Arbind Singh, Nidan, New Delhi and Umesh Chandra Gaur, Confederation of Community Based Organizations of India, New Delhi– Experiences; Examples.

Issued 24 February 2012. Available at: <ftp://ftp.solutionexchange.net.in/public/emp/cr/cr-se-emp-mf-24021201.pdf> (PDF; Size: 102 KB)

Seeks inputs on livelihood and microfinance related issues of street vendors including microfinance products and services

Fast Tracking Financial Inclusion through Effective Role of Regional Rural Banks, from Resham Singh, Punjab Gramin Bank, Mohali, Punjab

Issued 28 March 2012. Available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-28031201.pdf> (PDF; Size: 240 KB)

Seeks inputs on RRBs more effective role as a financial intermediary for providing multifaceted services to the rural poor

Responses in Full

Aloysius P. Fernandez, NABFINS, Bangalore

I would like to share the genesis, vision, approach and the ways in which NABFINS promote inclusion of poor in growth.

NABARD FINANCIAL SERVICES LIMITED (NABFINS) - A subsidiary of National Bank for Agriculture and Rural Development.

In an environment where micro finance largely lost its stardom, where future policy was still unfolding and uncertainty reigned, where investors were concerned with re-scheduling loans rather than increasing exposure, and where potential clients were faced with reduced choices, NABFINS managed to grow in terms of outstanding from Rs.42.7 crores in 2010-2011 to Rs. 183 crores in 2011-2012. It was able to achieve this progress due to the support of its partners including 67 Business Correspondents/Facilitators, 3 Producer collectives and 8969 SHGs. The growth during 2011-12 was partly due to the staff and infrastructure setup in late 2010 which became operational during 2011-12. As on March

31,2012, NABFINS has established offices in 31 Districts in 3 States, with 87 staff. It availed of Rs. 200 crores refinance from NABARD during the year; the average cost of funds in 2011-2012 was 8.08%; its net owned funds stand at Rs. 48.47 cr.

NABARD, since its inception, has been entrusted (amongst other major responsibilities) with the responsibility of providing small loans to the priority sector. It fulfills this responsibility by supporting several schemes for the small and marginal farmers and since 1992 (by which time "micro finance" replaced "small loans") by promoting the SHG-Bank Linkage Model which has spread all over the country. Further it promoted in 2008 a subsidiary called NABFINS (with equity from NABARD, Government of Karnataka and several Commercial Banks) and positioned it in a field which till then was dominated by models of NBFC-MFIs which started with good intentions; some of the largest ones however were increasingly driven by private and venture capital, where profits, high growth rates and high remunerations became the dominant drivers because governance took a back seat.

NABFINS and the SHG-Bank Linkage program are not in conflict. Both are required in order to offer the client a choice. NABFINS on its part does not enter areas where the SHG-Bank Linkage program is doing well due to pro-active Bank managers who visit the SHGs regularly and mentor them. Unfortunately such areas are declining.. There are also large areas where people find it difficult to access a bank due to distance and lack of transport facilities; NABFINS operates in these areas. Over all, Banks' involvement in the SHG-Bank Linkage program is decreasing, as reports clearly indicate. The reasons for this decline are many –ranging from acute staff shortage at Branches to amalgamations of Banks which tend to make small loans required by SHGs unviable.

NABFINS belief is to establish and run a NBFC-MFI model which would promote and sustain:

- Good governance leading to transparency in accounting, remuneration and disclosure
- Reasonable rates of interest and other costs which earn a profit but do not maximize profits or profiteer at the expense of the clients at the bottom of the pyramid
- Investment in activities that generate income in the short, medium and long term and increase capital with the poor family; since these activities chosen by the group members are not only diverse in terms of sectors/categories but also in purpose, size, and repayment periods within a sector/category, it requires a business model which is able to customize loans and repayment schedules in order to respond to the diversity of livelihood situations; standardization therefore cannot be the main driver even though it results in higher profits for the NBFC-MFI; and
- Fair practices which ensure that there is no over/ multiple lending or coercion in collection which, experience has shown, results from business models driven by speed and scale to maximize profits and in many cases to provide space for quick exits of investors. NABFINS is in this business for the long term.

Keeping in mind these guiding norms, NABFINS decided in 2010 to promote a culture, organizational and financial systems and a software which would - "Balance business with inclusion in growth". Inclusion here focuses on the poor and marginalized. To maintain this balance is the prime responsibility of the Governing Board. As a for profit entity, it endeavors to earn enough to cover all costs related to management and expansion, to design and absorption of appropriate technology support systems, to training and reasonable incentives to staff and management and to cover its risks especially arising from investment in second level institutions like producer collectives. All this is well accepted in the for profit sector.

But NABFINS also seeks to promote inclusion of the poor and marginalized in growth - not only financial inclusion which has been reduced to opening "no frill accounts". Inclusion of the poor and marginalized in the growth sector in a sustained way, requires support from a variety of institutions involved in building confidence and management skills of the poor and their ability to lobby for change and build linkages with others; it also requires technical, organizational and infrastructure support in production,

aggregation and marketing of products; these in turn require financial support like grants, term loans, cash credit, working capital, revolving funds and appropriate infrastructure. In the field of dry land agriculture - a high risk operation - where a large part of the loans of SHGs/JLGs are invested, support is required to reduce the clients risks and make her/his investment productive and sustainable. They need to be insured against crop failure - but even more the production risk has to be reduced. Hence NABFINS loans to groups involved in dry land agriculture are focused in areas where watershed management programs are being implemented by NABARD, Government and NGOs. This reduces the risk of investment in this sector. To build confidence and management skills, NABFINS provides grants sourced from NABARD for institutional capacity building and to improve the organizational and financial management of SHGs, JLGs and Producer collectives. Likewise where investment is in livestock, it partners with an institution that has the expertise and outreach to provide animal health care. It responds to diversity in livelihood needs instead of standardizing loan sizes and products and staggers repayment schedules to cope with (customize) different cash flows of income generating activities; developing a software to support this diversity took time as those available off the shelf suited a standardized model which largely benefits the NFC-MFI not the client.

All these interventions require extra investment and a longer period of gestation, thus reducing profits to Nabfins; but they also help to develop a network and support system for the poor client to build a sustainable livelihood base and to be "included" in the growth sector.

The conflict between business driven by self-interest, on the one hand, and inclusion of the poor in growth on the other (which implies a social objective to alleviate poverty), has been a subject of debate since the middle of the 19th century. On the one hand some philosophers and economists hold a position that empties the market of all moral considerations; others hold that, left to itself, self-interest can go too far and therefore needs regulation. In general two streams could be identified: one that maximizes profits and later sets aside part of the profits "to pay back to society". The other stream tempers the impact of market forces by several measures that reduce the stress on employees, improves their living conditions and ensures a standard of living while opening choices to customers; this model was the result of social movements that became enshrined in law. The first believes in growing the cake before it is shared, the second focuses on: growing the cake together or "creating value together", which – in the case of NBFC-MFIs, implies provision not only of credit and other financial services, but of a larger number of livelihood opportunities, improving skills and governance.

NABFINS has no quarrel with the first approach as long as those involved do not claim to "alleviate poverty" and at the same time seek favors and benefits. In this case it is both immoral and unsustainable, NABFINS, however, would like to anchor itself firmly in the second category. But it realizes the extra challenges that this approach has to cope with. It does not accept that the first model is appropriate to include the poor in the growth sector. In fact maximization of profits, in the final analysis, reduces capital in the hands of the poor and results in an increase in their vulnerability and often in their exclusion from the growth sector. Capital has been extracted from the bottom of the pyramid where it is in short supply and not controlled by the poor. It was commonly proclaimed that competition between NBFC-MFIs would bring down the interest rates as is the trend where market forces operate; in the case of micro finance, this was not the case, the customer obviously was not: "king/queen".

NABFINS tries to keep the balance between "market forces geared entirely to earn profits" and "development finance" which attempts to open more opportunities to the marginalized. As a business model which promotes development finance, it levies interest at reasonable rates but also ensures that the overall cost to the client remains low by providing door step services and quick turnaround.

Up to March 31, 2012 the rate of interest to SHGs/JLGs was 13.5%; to second level institutions, like producer collectives, it was 11.5% ; the margin cap was 4.66 % - both well below the RBI norms of 26% (interest) and 12% (margin cap) respectively. The average cost of funds, thanks to NABARD, was 8.08%

How does NABFINS promote Inclusion of the poor in growth?

Among others, NABFINS endeavors to promote the following seven important features:

Governance: Governance plays a critical role in promoting inclusion of the poor especially in For profit NBFC-MFIs. The drive to maximize profits does not arise only in for profit MFI-NBFCs. It also exists in many Not for profits. Ultimately the difference is established by the policy and practice of the Members of the Governing Body of the NBFC-MFI. History of the large NBFC-MFIs provides adequate evidence that the “transformation” from not for profits to for profits which was assisted by various institutional mechanisms held up as “innovations”, was also accompanied by a transformation from standard salary packages to pay packages higher than earned by the CEO of the largest private sector Bank, high bonuses, stock option plans and stock purchase schemes at highly preferential rates which when en-cashed brought in super profits in a very short period. If the Chairman and Directors create an environment where profit maximization at any cost is rewarded; others in the organization follow and the objective of providing adequate and customized credit at reasonable costs as well as other support to enable the poor client to build a sustainable livelihood base is forgotten.

NABFINS Board is aware of this danger and is taking steps to ensure that its Chairperson and independent Board members are not eligible for bonuses, loans or any payment arising from performance and related to incentives, which however the staff and BCs are entitled to. It is expected that these decisions will have an impact on the quality of overall governance.

Staffing: NABFINS has a staffing pattern which helps it to reduce costs resulting largely from salaries, training and housing. Head Office is staffed by a team aged between 25 and 45 years drawn from other financial institutions and by three senior staff on deputation from NABARD, two of whom remain in NABARD's payroll. At the Districts, it recruits just retired commercial bankers who have worked in the District and have a sound reputation, who have experience in working with the SHG bank Linkage program and relate well with NGOs; they need to have a House in the District headquarters in which they reside. A separate NABFINS office is provided; they are assisted by 2-4 Field Service officers. This team headed by the District officer deals with the first vertical, namely with SHGs/JLGs. This is a small team and is adequate since NABFINS lends directly to groups/institutions, not to individuals. The other vertical dealing with second level institutions like Cooperatives, Producer Collectives is managed by Institutions with experience in this area who function as Business Facilitators. During 2012-13 decentralization will also take place through regional offices in Karnataka and Tamilnadu, which, among other outcomes, will also reduce costs.

Working in Partnerships: The poor cannot be included in growth only through provision of credit and other financial services. To promote inclusion in growth NABFINS decided to work in partnership with NGOs, Cooperatives, producer collectives, Federations which not only function as Business Correspondents and Facilitators, but more importantly are able to provide technical and other support services critical to make investment productive and/or to reduce production risk, to aggregate, add value and market commodities. NABFINS does not propose to take on all these activities when others can do them more efficiently. In the case of life insurance for example, given the various subsidies provided by States, NABFINS is engaged with the BCs in identifying pro-active insurance companies in their areas of operation and will provide any support required for insurance companies to extend their coverage.

NABFINS will provide only those services which others cannot provide at NABFIN's level of costs, quality and social concern; it will however endeavor to actively promote institutions providing insurance (life insurance to begin with and later health); it must be noted that the SHGs advance loans for purchase of medicines and medical care while savings is a product of the SHGs.

There is no doubt that there is a higher risk in working with BCs as partners. NABFINS believes that this risk must be shared by supporting the partners to become more organizationally and financially sustainable, by maintaining a transparent relationship, responding to their justifiable demand, rewarding them for good performance and at the same time by ensuring that its own staff maintain a close relationship with the groups. . This is easier said than done.

NABFINS has taken the first steps in this direction and will continue to expand its support to BCs by mobilizing funds for organizational and financial management and, by introducing incentives for good performance. As on March 31, 2012 the average yield on NABFINS' loans was 14.74% out of which 2% was passed on to its BC partners leaving 12.74% with NABFINS.

Personal interaction between staff and SHGs/JLGs: NABFINS staff together with the BC staff assess the SHGs/JLGs together and those eligible are advanced loans directly by NABFINS staff who later keep in touch with the groups. The responsibility for ensuring repayments lies with the SHG itself; the responsibility for collection of repayments lies with the BC. Personal contact with the groups helps in maintaining and building mutual trust.

Support for second level institutions like Producer collectives, Cooperatives: If the poor are to be integrated in growth in a sustainable and incremental manner, provision of credit to the SHGs/JLGs and support for production is not enough. Since most of them are small and marginal farmers their produce needs aggregation, value addition and marketing. As on March 2012, NABFINS has invested Rs 2.42 crore cumulatively in second level institutions as working capital to support aggregation, value addition and marketing in cotton, handicrafts and fisheries.

The risk increases and diversifies with second level institutions. Efforts are being made to cover this risk through mobilizing support from financial institutions (unsuccessfully so far) as well as through building a risk fund from profits. Investing in second level institutions has taken time to take off because there are few functioning and the experience and expertise to support and mentor them is limited. NGOs who have devoted time and effort in promoting this sector find it difficult to mobilize financial support to build these institutions. Unfortunately there is no integrated organizational and financial scaffolding in the country to support aggregation value addition and marketing of agricultural commodities –the only example where such integration functions is in milk.

NABFINS intends to give priority to support the formation and functioning of second level institutions. It has sought NABARD's support to achieve this objective. Its attempts to mobilize resources to cover the higher risk involved have so far not been successful. The Board decided to allocate a sum of Rs. 5 lakhs for this purpose at the end of March 2012..

Respect for Diversity: Respect for diversity is a major requirement for inclusion in growth. Inclusion in growth demands customization to cope with the variety in purposes, sizes and repayment schedules. Recognizing this diversity, in the early 90s before the SHG Bank Linkage program was launched, a major policy decision was taken by NABARD and supported by RBI to allow banks to lend one loan (bulk loan) to the SHG allowing the SHG to decide on the size, purpose and repayment schedule of the loans. This major policy decision enabled the SHG members to ask for what they could manage and the training provided to the group as well as their local knowledge equipped the group to decide whether the member was serious and able to manage the loan effectively. This was a major reason why the poor respond so well to the SHG program. Briefly NABARD did not mainstream the functioning of the SHGs by imposing pre-determined products and a cost structure. It left these decisions to the group and this resulted in "innovations" which no bank could have coped with. Since NABARD respected this diversity, it did not prescribe or plan "products" in the context of the SHG-Bank Linkage program. Recent communications from NABARD however are asking NABFINS for its "products". Savings is listed as a "product" of NABFINS. It is really a product of the SHG. Studies of SHGs formed by NGOs show that

members save and invest in the SHG common fund up to a certain point and then opt to open individual Bank accounts and deposit their savings there.

What also emerged from the decision to allow the group to decide, was that a family had a livelihood strategy comprising of several small activities and not of one or two large activities which many of our anti-poverty programs assume they have. Loans from the SHG provided finance for these small activities some of which expanded while others were dropped after a year or so.. The group also knows whether some unexpected event has taken place which interrupts the cash flow or channels it elsewhere to meet an emergency, hence it is best suited to decide whether and how to reschedule the loan.

Unfortunately this is where most financial institutions hesitate to respond since it demands time and reduces their profits. Standardization of sizes, purposes and repayment periods is easy to monitor no matter what its impact on the client or customer.

NABFINS realizes, as NABARD did in the early 90s, that inclusion in growth demands that the last mile has to be an institution which can cope with this diversity. ICT (which has been accorded a role far above its potential in this last mile) can help to collate and analyze the data after the SHG has decided. The data on the decisions taken by the group on the purpose, size etc. of the loans to individuals must be taken from the Minutes Book of the SHG and not asked for in advance(before the loan is given) by the MFI-NBFC. In most cases the latter is the case, and experience has shown that this data does not give the real picture.

Since NABFINS gives one bulk loan to the SHG/JLG (as in the SHG-Bank Linkage program) it reduces transaction costs as well as enables the member to borrow according to her/his requirements. The tenure of loans is not uniform or standardized; it ranges from 12 months to 36 months depending on the purpose of the loan and the cash flow. However as of April 1, 2012 the shortest tenure will be 24 months in compliance with RBI norms.

Institutional Capacity building (ICB before ICT) : If the poor are to acquire skills to manage their own institutions (the last mile) like SHGs/JLGs/Producer collectives etc., they need training in institutional capacity building (ICB). Modules comprising how to meet, resolve conflict, foster participation, how to analyze the causes of poverty, how to build linkages etc. have been designed by NABARD and other NGOs and put to use. But conducting this ICB training takes time –at least 4- 6 months before loans are extended. Few for profit NBFC/MFIs will agree to provide this space even though funds are available from NABARD, Government programs and from institutions like IFAD and the World Bank. Even the private sector is now providing grants for ICB. NABFINS hopes that when SHG-2 is launched, adequate funds will be provided for ICB and NGOs with experience in ICB selected to train the groups. Looking back, however, what is more relevant is to go “back to the basics” on which the SHG movement was built.

Navin Anand, UNDP, New Delhi

Conceptually, Microfinance sector has three environments –

- **Macro/External Environment:** Policy and Regulatory Bodies/Government, Rating Agencies, knowledge sharing platforms, Networks and Associations promoting microfinance sector etc.
- **Intermediary or Meso-level Environment:** MF Wholesalers, Semi-wholesalers, other Financial Service Providers and Projects of different ministries
- **Micro Environment:** Retail Financial Institutions/ MFIs, SHG-Federations, financial cooperatives, SHGs, JLGs and MF Clients

The state of the sector report can also be seen in context of the coverage of all the three environments and the factors that are conducive or detrimental for the progress of the sector.

In Microfinance Community of Practice Solution Exchange, in addition to many themes and subthemes, there have been discussions on all the three areas specified in the query - Social and Financial Performance Management, Policy and Regulatory Environment for Microfinance and Innovative Experiments / success stories of financial inclusion. The consolidated Replies can be accessed by using the links given in the CR index available at: ftp://ftp.solutionexchange.net.in/public/mf/resource/MF_CR_Index.pdf.

Recently, we had a good discussion on Street vendors wherein microfinance issues related to street vendors were also covered. The consolidated reply is available at: <ftp://ftp.solutionexchange.net.in/public/emp/cr/cr-se-emp-mf-24021201.pdf>.

I think Dr.Puhazhendhi, the query poser and lead author of State of the sector report 2012 will find the consolidated replies of different discussions useful for writing the state of the sector report 2012. Since the consolidated replies also incorporate successful cases therefore it will be easy to incorporate relevant cases in the report.

[R. Sunil](#), Consultant Economist, Mumbai

Perhaps, a more practical way of understanding and analyzing the MF sector performance and perspectives would be: Policy environment, Provider environment and User environment.

What matters is the perspective you adopt to look at and analyze - and I feel, the sector at this stage badly needs a user perspective to the whole sector and its dynamics. Technology environment can be thought of as a facilitator to achieving the desired sector goals and priorities.

[Subhash C. Wadhwa](#), Mumbai

The response of Mr. Fernandez is appropriate and timely. Once again he has proved that Microfinance can be sustainable and continue to be poor friendly. It gives practical approach to microfinance without sacrificing the main Mission statement of most of the MFIs i.e. helping and empowering the poor. Both Sanghamitra and NABFIN with which Mr. Fernandez is associated have been charging relatively lesser interest from ultimate borrowers and still have financially viable operations. Besides, they are also doing 'Microfinance Plus' activities for better productivity of credit and better empowerment of poor. The experiment of their sustainable Resource centers is worth studying and adopting by others with need based variations. Very few MFIs are having similar set up. May be more needs to be done in areas of using ICT, Mobile banking etc. by NABFIN, Sanghamitra and MFIs in general to reduce the cost and more efficient and transparent operations. May be they take help under NABARD - FITF.

[Hemantha Kumar Pamarthy](#), Vientiane, Laos PDR

I wish to respond towards the ongoing query on SOS 2012, initiated by Mr. Puhazhendhi.

When it comes to initiatives, the present cap of interest rates should be a good deterrent. To ensure better social performance, the funding agencies may stipulate realistic and measurable mandates of credit plus activities and social interventions along with the purveyance of microfinance.

It might sound old fashioned, but the earlier NGO-MFIs indeed tried to strike a balance between the social and financial performance. Apart from trying to become sustainable the old guard also tried to

extend finance at agreeable rates of interests, helped in the literacy efforts of the disadvantaged needy, helped in extending training in vocational courses.

The funding agencies, mostly banks, were extending loans at a concession in the PLR and booking the loans under their mandated "Priority Lending" obligation. But the banks were stipulating one of the following two conditions in addition to other terms and conditions -

- They were setting up un-realistic and un-sustainable caps on the onward lending rate of interest or
- They were not extending any funding support to those NGO-MFIs who were trying to keep their interest rates low citing the reason that the lending was unsustainable.

Having handled treasury during the past decade, I have personally encountered both the situations. This actually meant that the bank funding was double-edged. Do and be damned or don't do and still be damned.

It was under these circumstances that even well meaning, not-only-profit oriented organizations were forced to find reasons and causes to raise their interest rates. Once the MFIs began increasing their rates of interest, donor funds for supporting activities started eluding them forcing the MFIs totally dependent on either debt funding or market funding that included private equity.

Once an organization went in for private equity, it became inevitable that the focus was more on the financial performance than the social performance.

In my opinion, the only way a balance can be struck between financial and social performance would be to encourage more and more social funding, stipulating a blend of realistic and sustainable social and financial terms and conditions.

[Tara Nair](#), Gujarat Institute of Development Research, Ahmedabad

In my opinion, the SOS 2012 should focus beyond the year that passed by and try to provide a critical reflection on the broad trends and patterns observed over the past 20 years. It is important to acknowledge that the sector entered a crucial phase in its nascent history during 2010-12 as a culmination of certain tendencies that became apparent since the mid-2000s. These seem to include the changes in the pattern of financing of microfinance and the progressive significance of external capital, changes in the governance structures and divergence of policy thinking between the provincial and national governments, apart from the usual indicators of growth/ decline, diversity etc.

I would expect the report to discuss some of the crises that the sector faced in the previous couple of years that are generally relegated to the background as regional aberrations. A good and inclusive discussion on the status and desired direction of regulation is the other expectation from the report.

[Madhurima Jaiswal](#), Member, SIFE SRCC, New Delhi

I am a member of Students In Free Enterprise, Shri Ram College of Commerce (SIFE SRCC). I would like to share the details of a microfinance-centric social entrepreneurship project "Life on Wheels" which aims at financial inclusion and overall upliftment of the community of rickshaw pullers in the North Campus of Delhi University.

Life on Wheels

On the bustling streets of Delhi, one is invariably greeted by a multitude of cycle rickshaws. Everywhere, one can see rickshaw pullers vigorously pulling rickshaws, ferrying passengers as fast as their legs can pedal, negotiating fares and incessantly calling out for customers.

In India, a large percentage of urban population, especially migrants lives below poverty line. The poor and illiterate are drawn to big cities, where the huge population, the fast-paced way of life, and ever growing demands offer innumerable opportunities for the employment of such migrants. For them, rickshaw pulling is an attractive option. It requires no skill per se, and rickshaws are readily available. However, what initially appears to be an attractive, flourishing business sure to put the migrants out of their misery, has more to it than meets the eye.

The Community

While conceptualizing the model, SIFE SRCC conducted detailed surveys and preliminary analysis to understand the problem of the rickshaw puller community and study the prevailing contractor system. According to one of the surveys, there are about 100 rickshaw pullers in the Campus of which a staggering 94% do not own their own rickshaws. They hire them from an exploitative contractor to whom they pay a fifth of their daily income as rent.

Twelve hours of toiling in scorching heat and pouring rain earns a rickshaw puller only 250 rupees per day, of which he must pay 50 rupees to the contractor and use the rest to feed a family of five, send his children to school, spend on healthcare and remit money to his elderly parents.

He has nothing to call his own asset; hence he has no access to credit. A day off from work would cost his family its day's bread. Throughout his life, he is never able to accumulate enough money to purchase any asset to call his own. Constantly harassed and beaten up by contractors, he lives a precarious existence at the margins of society. Such rickshaw pullers form the target community of our project, '**Life on Wheels**'.

Project Model

The SIFE team identified the rickshaw pullers' need for micro credit in order to purchase their own rickshaws. Since these rickshaw pullers could never obtain loans on their own due to lack of collateral, SIFE-SRCC has overcome this problem by serving as the guarantor.

After having realized the need of our community that is –ownership of the Rickshaw, we set up a typical microfinance model based on the concept of Joint Liability, prepared loan sheets, cash collection registers, conducted trainings and successfully implemented the entrepreneurial venture. In collaboration with Punjab National Bank we provide loans to these rickshaw pullers under the **Jan Mitra scheme**, wherein the poor can open a no frills saving account.

The various phases of the project are –

- Continuous Group Training and Group Recognition Test
- Document Collection and Opening of a Bank Account
- Loan sanction
- Rickshaw disbursement

Firstly, rickshaw puller clusters are identified in villages. A date is fixed for a continuous group training in which the SIFE team acquaints them with the subject of bank accounts, loans, repayment system, etc. The identification process of rickshaw pullers is guided by two criteria –

- that they satisfy the know your customer (KYC) norms of the bank
- they are deemed credible through word of mouth.

Loan Sanctioning and disbursement

While the former criterion involves requirement of a valid ID proof, the latter ensures that only rickshaw pullers who may be trusted to repay the loan are involved in the project. All eligible rickshaw pullers then submit the required documents to open a saving bank account in Punjab National Bank. Once the account is opened, loan documents are filed.

The loan amount sanctioned is Rs.10,352 repayable in 52 weeks at interest rate of 12% per annum. Of the total amount, Rs.9000 is for the rickshaw Rs.1100 is for the uniforms, Rs.252 for asset insurance and Rs.100 for life insurance. An ID card is also provided. The rickshaw pullers are provided with improvised rickshaws that have been customized for the comfort of both pullers and passengers.

These rickshaws have an elongated shed to cover not just the passengers but also the rickshaw puller, Cushioned seats for the comfort of the commuter, a dustbin for a cleaner campus, and a newspaper holder where a complimentary copy of The Times of India and Navbharat Times is placed every day.

Advertising space has been provided on the back of the rickshaw in order to generate additional revenue for rickshaw pullers. We are looking at three prospective contracts for the same. Life insurance of the rickshaw pullers is done under JanshreeBimaYojna of LIC, while their newly possessed asset is insured under the asset insurance scheme of Oriental Insurance.

A nominal amount of 250 rupees is collected from these rickshaw pullers once a week, for 52 weeks, after which the rickshaw becomes their own asset. For this process we have appointed a field officer who visits the village repayment centre on a designated day. What these rickshaw pullers would otherwise pay as rent to contractors can now be saved. While 5 rickshaws were launched in 2009, 10 rickshaws were launched in 2010. The project reached a milestone in January this year with the launch of 100 rickshaws by the Hon'ble Chief Minister of Delhi, Smt. Sheila Dixit.

Allied activities

To give this project a holistic outlook, we have collaborated with various organizations. Max India Foundation conducted an eye check-up camp for the rickshaw pullers and their families and provided free medication and spectacles.

Larsen & Toubro, in an effort to empower the children of the rickshaw pullers, distributed educational kits to them consisting of notebooks, pencils, colors etc. Fashion Design Council of India as a part of their social initiative designed 35 rickshaws. These were designed by the likes of Rohit Bal, CharuParashar and Ranna Gill.

To add another dimension to the project, we started a heritage tour project - 'DU Darshan' – know your campus. DU Darshan is a cycle rickshaw tour of the Northern Ridge area of North Campus guided by our rickshaw pullers who have been specially trained for the same, by INTACH (Indian National Trust for Art and Architectural Heritage). The project has been widely appreciated for its two fold benefit – firstly, for augmenting the rickshaw pullers income. Secondly, for introducing the students to these architectural marvels, some of which date back to the 13th century.

Economic Impact

Due to the ownership of the rickshaw, the rent of Rs 50, earlier paid to the contractors, now being saved, generates total savings worth Rs. 1800000 for 100 rickshaw pullers. The improved and commuter friendly rickshaw model has augmented the earnings of 100 rickshaw pullers by Rs. 1440000. The project, Life on wheels, has thus made an Annual Economic Impact of Rs. 3240000.

The Way Ahead

The total credit raised by SIFE- SRCC for facilitating the loans of the rickshaw pullers is over Rs.10,00,000, of which Rs.2,50,000 was successfully repaid by the year 2011. In the second year of the repayment cycle, our repayment rate has increased from 25% last year to 61% this year. By the end of third year, we aim to achieve 100% repayment. In order to help the rickshaw pullers to independently handle banking and insurance problems and facilitate savings, financial literacy training was conducted last month.

'LIFE ON WHEELS' has helped 100 rickshaw pullers become proud owners of their rickshaws. These rickshaw pullers now, have an additional earn, save more and are free from the clutches of the abusive contractors thus creating a significant social impact. Access to proper health care, assistance in educating their children, Life and asset insurance are other dimensions to our project. Availability of uniforms and ID card has restored their pride and dignity. It has given them a place in society and most importantly has helped them rediscover the joy of self-worth.

We adopted a collaborative approach in implementing the project to effectively empower the Rickshaw pullers. We have provided them financial literacy, induced the habit of savings and introduced them to the formal banking facilities to facilitate financial inclusion.

In the long run, after ensuring successful repayment of the loans, SIFE SRCC plans to outsource the already established system so more organization can replicate it ensuring project sustainability.

D. Lazar, Pondicherry University, Pondicherry

Based on the submissions so far, I am of the opinion that financial performance is a must for social performance in other words, social performance without financial performance is not sustainable rather it will lead for someone losing for someone else gain.

Simply receiving from donor and giving to others from the pool of receipt through various so called schemes is not social performance.

MFIs/NGOs are expected to work and sweat to have financial performance and then it is ideal to think about social performance. The point to be considered is when they are trying to financially sustainable, MFIs/NGOs not to indulge in exploitation of poor. There are many ways which will help them to have financial performance, for example economies of scale, quality product, being genuine to the customer etc.

Talking of social performance without financial performance, would lead for subprime type of situation and which will be detrimental to everyone in the society.

While financial performance is tried, nothing wrong in having social concern.

Resham Singh, Punjab Gramin Bank, Punjab

Sometime back, I had initiated a discussion on Regional Rural banks and their role in providing microfinance to the poor especially those who are living in the remote areas. Based on the discussion held earlier, I would like to suggest the following –

- RRBs have better understanding of their region in context of the needs and opportunities of the poor; hence RRBs can provide customized financial solutions to suit the socio-economic situation of the people in the rural areas. In order to do this, RRBs may focus more on evolving innovative financial products and mechanisms of delivery based on requirements of the clients
- RRBs also need to opt for innovative mechanisms to cut down their own costs. One possible way could be to engage local youth as agents to provide MF services at door steps of the poor. RRBs can also provide financial services through Business correspondents and also adopt technology based options like mobile banking, biometric cards etc.
- Besides credit and other financial services, RRBs can continue focusing on savings mobilization
- RRBs can also play pivotal role in facilitating Flagship programmes such as MGNREGA, NRLM and other such programmes by undertaking financial literacy initiatives as well as facilitating in transfer of money.

Please read the consolidated reply of the discussion which is available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-28031201.pdf>

Keeping in view the importance of Regional Rural banks for financial inclusion, I would like to suggest for including a separate chapter or a section on Regional Rural Banks, in SOS 2012.

Finally, I want to suggest that poor people should be given Rights to Borrow from the banks. SHGs may be allowed to get 10 times of their savings or 90 percent of the project cost at 6-7 percent rate of interest.

UshaGopinath, Accion, Bangalore (Response 1)

I would like to share two innovative experiments initiated by Accion for financial inclusion. Accion embarked upon a key non-financial component of poverty alleviation and has major two programs pertaining to client education –

- Business training through our Dialogue on Business for building business skills of micro entrepreneurs. Details of the programme available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/res21061201.pdf> (PDF; Size:1.32 MB)
- Financial literacy to help low-income clients better manage their personal and household finances and become informed and effective consumers of financial services. Details of the programme available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/res21061202.pdf> (PDF; Size:1.26 MB)

We started implementing both the programs in 2009 and have trained more than 25,000 entrepreneurs across Southern parts of India and reached out to 32,000 beneficiaries in financial literacy program in Bihar.

Financial literacy around the world is found to be low as measured by various studies including the OECD (Organization for Economic Co-operation and Development) survey study carried out across 13 countries, In India, the levels of financial literacy are poor even by the low global standards, according to some studies such as the VISA International Literacy Barometer 2012, there is a need for a comprehensive

research on financial literacy in India. There are several institutions imparting programs at the grass root level but there is no standardized material available for replication and scale. Even the latest financial bulletin from RBI has stressed the need to have a standardized material for spreading awareness on basic financial planning principles to the mass in rural areas.

Although several studies define financial literacy as “a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being” but there is no empirical evidence to show how financial literacy programs have directly impacted the mass due to lack of monitoring mechanisms and the programs are not designed through a robust methodology to back impact. Accion has also tried hard to substantiate with monitoring tools but the institutions have no funds to conduct impact evaluation by third party, the issue is whether “financial literacy is a fund driven program”?

On the contrary the lack of awareness has implications both for households and for the broader economy. Low awareness also leads to poor diversification of risk across products and suboptimal investment of savings for the household. We need to address the issues that bring down the capital of the overall economy in India, and the need of the hour is to concentrate in having a model, that enables customer to make financial decisions backed by tracking of financial behaviour going forward. In this hour Accion has been working towards developing and designing a mass awareness model that will be ably backed by monitoring mechanisms and a program that will be cost effective without dependency on trainers for overhead burden on institutions, and a program that is scalable and replicable and go beyond MFI to reach out to bottom of the pyramid. Please go to link for more information on the program – www.accion.org.

[Sandhya Suresh](#), ESAF Microfinance, Thrissur-Kerala

I would like to present some of my views towards the second phase of query being posted by Mr. Puhazhendhi.

Social and Financial Performance Management

The need to develop systems and means to capture SPM in the report and take strategic decisions based on social data is more of an internal drive. Unless the board and the senior management is keen to support SPM the way they support financial performance, a right blend of social and financial performance cannot be achieved.

Socially committed MFIs have been doing their bit to offer 'something more than just credit' to their clients with a conscious decision to enable the socio-economic growth of the clients. Such measures definitely add to the retention rates of the clients. With global directions such as universal standards of social performance which has come up after a series of deliberations, there should be acceptance of such standards by all the MF stakeholders. Moreover, practitioners who adhere to the standards should be rewarded and acknowledged for their commitment to do so. MFIs should be supported with some grants to develop SPM systems and those practicing exemplary work should be acknowledged by industry 'caretakers'. The acknowledgement could be in the form of offering debt or equity at a discount, publishing their case studies so that the good practices could be replicated. Unless we understand SPM in line with 'responsible finance' and see to it that it is very well ingrained as the part and parcel of the DNA of the organization, no amount of external push will make it work.

Innovations in Financial Inclusion

The understanding that 'financial inclusion is beyond opening up a zero balance account is slowly getting penetrated not only among the banking fraternity but also among the customers. The time and effort to design and plan financial literacy sessions for the illiterate and semi-literate clients require a whole of commitment and enthusiasm which cannot be 'incentivized'. And our experience says that 'no one story fits all'. We need to develop and chose stories, real life cases using local verbatim from our own geographical and cultural zones to be able to connect to the clients. In an action research project supported by ILO, we tried to 'formalize' the micro and small enterprises of our clients who were running their petty businesses without any legal registration for the fear of inviting Tax officials once they register. But the benefits of formalization enabled them to get subsidized loans through the Flagship program of Khadi Village Industries. This bank linked loan facilitated many of these women to indulge in discussions with lead bank officials. This project also trained these women in maintaining their books of accounts and prepare business plan whereby they could easily produce them when they were selected in the first round of flagship scheme. These women remain as the most credible spokesperson of our institution and are successful business women.

Sashi Kumar, CARE India, Tiruchirappalli

Good to note that there are many thoughts pooled in for the State of the Sector Report 2012. Following are my views and suggestions related to SOS 2012 report -

Firstly - Interested to look at the impact of regulation on community based microfinance institutions (CBMI). Especially while the Banks financial exposure towards Microfinance sector was decreased, indirectly CBMI was also a victim to some extent who was highly depended on formal financial services. A five year comparison would also help to understand on the status or the presence of CBMI.

Secondly- Would like to understand the donor's preparedness towards any future regulatory hurdles. There are many donors who happen to revise their bulk loans or convert the debt fund into equity aftermath of AP incident. It would good to understand the mitigation strategies followed by donors on such situations.

Thirdly- There is aggressive marketing of Financial Inclusion concept across the country through Business Facilitators (BF) and Business Correspondents (BC). All formal financial services are proposed to channelize to rout through Financial Inclusion engagement. Would like to understand does the financial inclusion have any impact on MF program? Also it would be good to note the key players in financial inclusion and few case studies on viable BC Models.

Fourthly- Financial Literacy has been considered to be providing wisdom on finance to the poor. Broadly working on financial literacy by various players and sharing of their learning's would help for the prospect players. Similarly is there any innovative literacy program going around on insurance literacy, pension literacy?

Fifthly- Different savings led microfinance model practised across the nation and the best practices adopted for sustainability.

Sanjeev Kumar, The Goat Trust, Lucknow

I would like to share an innovative experiment/success story of financial inclusion in the area of integrated services and risk management financial services for goat farming.

The Goat Trust along with its partner in Bundelkhand and eastern Uttar Pradesh has facilitated a Goat farmers led community insurance named as **Samudai Suraksha Yojana (SSY)** to provide integrated services and risk management financial services for goat farming. The partner location and name are as follows –

- Kriti Shodh Sansthan , Mahoba
- Gram Unmesh Sansthan , Banda
- Darhsna Mahila Kapyan Samiti, Chhattarpur (M.P)
- Grameen Development Services, Lalitpur
- Vishwas Sasntahn Rae Bareli

Background

Goat has been one of preferred livelihoods source for rural poor across the nation. However financial services like credit and insurance accessibility has been a critical constraint to upscale and improve this reliable business of the poor. On livestock insurance, the problems are seen both at demand as well as supply side –

- **Supply side Problems** - Low premium size, remoteness, difficulty in claim verification
- **Demand side Problems** - Complex registration process, complicated and long formats, Low awareness on livestock insurance products, high cost on claim receiving

In present national scenario for occupation like goat farming by poor families, community insurance seems only feasible option to enhance insurance literacy, enhance social capital and mitigate risk through community initiatives. Please find below the description of such an effort undertaken by The Goat Trust and its partners in one of the poverty pockets and semi-arid regions of the country (Bundelkhand) -

Under a project supported by Sir Dorabji Tata Trust (SDTT), The Goat Trust as a technical agency has been supporting abovementioned five partners to implement a goat based livelihood support project where risk of the business has been minimised through integration of capacity building of goat farmers, building institutions of Goat farmers (group and larger federation) and making provisions of financial services (Credit and insurance) for quality goat and buck induction. As per the project , an annual income of above Rs. 11000 per family through rearing 3 to 5 goats in semi stall fed condition is targeted.

As a first part of risk mitigation in goat farming, services of Livestock Nurses (Trained semi-literate village women - As per standardised process developed by Goat Trust with 300 such Livestock nurses) had been made available at each hamlet/village level with 50 to 70 goat farmers and 200 goats. A trained Community Livestock Manager (A term used by Goat Trust for trained youth with having basic skills of goat management, effective rural communication and first aid services) has been provided at each cluster of 10 villages to support Livestock Nurses and conduct capacity building training for Goat Farmers.

Community Insurance Product -As per community based risk assessment, the three major risks covered under the present insurance scheme are –

- Mortality - 100% of sum insured
- Infertility - 40% of sum insured
- Paralysis of back part - 50% of sum insured

Free services - Vaccinations, 2 Deworming, Training and regular visit by Livestock nurses

Premium - Based on live body weight estimation, pricing of goats/kids and bucks are evaluated. 10% of sum assured is taken as premium and a maximum of 50% of market value is covered by the product. For average price of Rs 3000 in the area, a premium of Rs. 150 is deposited by goat farmer in the fund.

Present experiences – Our five partners have launched this program after rigorous training of community, community leaders and Livestock Nurses conducted from December 2011 to March 2012.

As of today, 1019 goats have been covered under community insurance. In last five months a total of 24 claims were settled by the claim committee. The average time taken in settlement is less than 20 days. Payment has been received in cash and given by community themselves with a minimum level of paper formalities.

Some of The distinct features of present services are -

- No indirect cost of insurance access and claim settlement
- Door step registration, claim verification and payment
- Complementary services of vaccination, de-worming and regular health checkup of goats
- Free training on membership, claim process and improved goat management

The Goat Trust has developed a standard operating process (SoP) for community insurance. The document is available at: <ftp://ftp.solutionexchange.net.in/public/mf/cr/res21061203.pdf>

In our limited experiences, this has promoted both a sense of social /mutual help and pro-poor risk management services. Up to December, around 5000 goats shall be covered under the project meant for goat farmers and whole process shall be managed by community themselves. More details please write to thegoatrust@gmail.com.

[Madhu Sharan](#), Consultant Microfinance and Livelihoods, New Delhi

As far as my suggestions for the SOS report are concerned, I would have been happier to see a chapter on 'Women's Inclusion and Empowerment' or 'Women's Entrepreneurship and Empowerment.'

Inclusion is already there through the SHG model; maybe we could speak of taking inclusion to a higher level of women's entrepreneurship and empowerment.

Since the SHG model still dominates in terms of outreach, it would help if some innovative success stories of women's entrepreneurship and empowerment are highlighted. There are lots of NGOs and MFIs who would be glad to share stories of women making a success of their lives through access to finance, training and enterprises.

[Sachin Kumar](#), IIMPS, Noida

I would like to put forth following answers to the questions raised in the query on State of the Sector Report 2012-

Social and Financial Performance Management

What are the initiatives that have been taken up by organizations/institutions for protecting the consumers/clients availing MF services and how far these initiatives are effective at client's level?

To my knowledge, I have come across many MFIs such as Ujjivan, Grameen Financial Services, Arohan etc. that have institutionalised industry code of conduct and RBI's fair practice code into their day-to-day operations and staff training modules. To evaluate the staff behaviour towards customer service and their

behaviour with the clients, these MFIs have even incorporated client protection and service guidelines into their monitoring and internal audit functions. Staff members, who violate code of conduct and client protection guidelines, face with varying degree of penalty. Besides, there are implications of such conduct on their performance and career growth.

One of the good practices that I came across with the members of MFIN that the members share the list of staff who are terminated due to fraud, violation of code of conduct. This acts as a deterrent for the employees to indulge into wrongdoings. Many MFIs such as Arohan run staff refresher training to reiterate the importance of customer service and code of conduct. MFIs have even formulated and implemented whistle blowers policy to keep the employees' identity confidential who reports the improper behaviour of staff in violation of code of conduct and customer service.

Policy and Regulatory Environment for Microfinance

How far the proposed policy and regulatory initiatives contribute to the growth and performance of the MFIs in India? What are the necessary changes required for the smooth functioning of the MFIs in India?

Off late, RBI responded to the AP crisis while submitting affidavit in the AP High Court against the act of AP government in restricting NBFCs in running business. Undoubtedly RBI has an immensely great role in regulating and supervising the MF sector. A lot of good steps are taken from RBI in the form of making a separate category i.e. NBFC-MFIs, attaching importance of priority lending with this category, defining target clientele, setting guidelines on multiple borrowing etc. However, the RBI should seek for feedback from the MFIN, Sa-Dhan and other such institutions so as to make improvements in the circulars related to microfinance.

On the other side, government has recognized the role of MFIs in financial inclusion space. However it has not been able to convince its other alliances to urgently convert the MF bills into an Act. It is true that a good MF Act will impact financial inclusion goals and will boost the lenders and equity investors to revive the stagnancy in the sector.

Innovative Experiments / Success stories of financial inclusion

What initiatives have been taken up by various institutions for the financial inclusion of the people living in remote areas and how far these efforts have contributed for effective inclusion?

There have been many innovations in the field of credit offerings for small business and micro-enterprises. Besides there have been umpteen efforts by the Banking Correspondents and MFIs to offer money transfer, pension services to their target clientele i.e. mainly organised sector workers and self-employed low income population. BCs such as FINO, EKO, ALW, Oxigen have been using models and technologies to offer money transfer services all over India. In the pension domain, IIMPS has been the only company in South Asia working exclusively to offer micro-pension for the working poor. It has been able to subscribe lakhs of unorganized sector workers, small and micro entrepreneurs through SHG and JLG models managed by SHPIs, NGOs and MFIs. For more details about the IIMPS, please visit www.micropensions.com.

[Alka Parikh](#), DAIICT, Gandhinagar

Every year many studies are carried out on micro finance. A compilation of their results to indicate the impact on the members of the saving groups and other benefits generated would guide the sector more. For example, after being established so firmly, has it started affecting the poverty levels, number of businesses owned by the vulnerable sections and such? A chapter can be devoted to literature review on micro finance.

[RanganVaradan](#), MicroGraam, Bangalore

I would like to share MicroGraam's innovative MicroVenture investment model.

MicroGraam's MicroVentures

The microfinance movement addresses a basic yet devastating glitch in the formal banking system: Poor households cannot get capital from traditional banks because they do not have collateral to secure loans. Traditional banks do not want to take on the risks and costs of making small, uncollateralized loans. Consequently, without access to this capital, impoverished people cannot rise above subsistence.

Micro financiers have used innovative contractual practices and organizational forms to reduce the risks and costs of making loans, such as lending to groups, rather than just to one person. Another innovation that many microfinance organizations have adopted is targeting women. A major selling point of microfinance is its alleged ability to empower women. It is evident that microcredit does increase women's bargaining power within the home, centrality to the community, awareness of social and political issues, and mobility. It also increases their self-esteem and self-worth.

Though microcredit serves a useful function and is a necessary component of the wider provision of microfinance, there are a number of potential problems with exclusively loan-based programs. A serious problem is the potential for loan default if business income declines or if the business fails. During the last year, we saw possible abuses of the system, primarily due to stress in the relationship between the credit agent who needs to show a 100% recovery and the borrower who cannot always ensure this. There is urgent need to balance the relationship between the microfinance institution and the borrower so that the agent is not only giving loans to the client; he is also involved in other activities such as deposits, etc. and cannot therefore alienate her. In fact a number of microfinance practitioners have long been stressing on the role of savings for the benefit of the poor. Though this model of providing a stronger relationship based products is good but it still does not address the needs of a micro-entrepreneur who probably has already sunk all her savings into her business or in most cases may not have any savings.

In many cases, microcredit seems to do more harm than good to the poorest. Microloans sometimes even reduce cash flow to the poorest of the poor. One reason could be the high interest rates charged by microcredit organizations. The annual interest rates charged are in the range of 24 percent to 36 percent. Microcredit proponents argue that these rates, although high, are still well below those charged by informal moneylenders. But if poor clients cannot earn a greater return on their investment than the interest they must pay, they will become poorer as a result of microcredit, not wealthier.

Micro start-up businesses generally have weak or poor cash flow situations for a period of time, often for more than a year. The difficulties facing a microenterprise owner are always very formidable, and an obligatory, strictly structured loan repayment schedule can often be a fatal factor. Thus, although obviously more difficult to fund, a microenterprise financing which includes equity support rather than credit support is more likely to create a greater number of successful new microenterprises. We know that for any company to have a sustained growth without equity funding is close to impossible and this is

all the more true for microenterprises. If the micro-entrepreneur is struggling to succeed under the constraints of microcredit, then she needs something else. The microfinance offering probably needs to include “micro-venture capital” which is an absolute ingredient to successful entrepreneurship. The role of micro-venture capital in the form of equity is crucial in understanding the missing ingredient in the microfinance world. The role of micro-venture capital provider is not limited to providing equity financing but also includes providing professional advice and mentoring to the micro-entrepreneur.

MicroGraam is the first organization of its kind in India to introduce a new MicroVenture investment model, which is a dramatic departure from traditional microcredit lending. MicroGraam aims to bring an array of diverse financial tools for India’s underprivileged rural poor. In MicroVentures, a micro-entrepreneur and a micro-venture capitalist enter into a revenue sharing agreement, which enables the two partners to create a micro to small enterprise (MSE). Although traditional microcredit provides the essential service of access to credit, entrepreneurs who are willing and able to undertake larger business ventures are unable to do so under the current paradigm. MicroGraam has created MicroVentures to address this underserved niche market of entrepreneurs who require a larger loan size but cannot obtain them from commercial financing. MicroVentures provides flexibility and cost savings which can only arise from long term financing.

MicroGraam facilitates the connection between competent micro-entrepreneurs and micro-venture capitalists interested in investing in small to medium sized businesses. In this model, the micro-venture capitalist provides the full upfront cost to starting the business and the two parties agree to share a percentage of the profits or losses. The two parties agree upon how to share the profits or losses (50-50, 60-40 etc.) and the number of years the micro-venture capitalist will be involved. MicroGraam acts as the facilitator in the transaction and helps the entrepreneur with their business model.

Our first MicroVenture was a Dairy Farm in Kolar district of Karnataka. MicroGraam facilitated equity capital of Rs. 300,000 from six micro-venture capitalists in July 2010. The dairy farm was set by the members of the Self-Help Group and the group members jointly managed the dairy farm. MicroVenture Capitalist hold 40% stake in the dairy farm and 60% is held by the SHG group. In two years, micro-venture capitalist have been able to exit fully with a ROI of 11% p.a.

Our latest MicroVenture initiative is a ‘water shop’ in northern Karnataka. Our micro-entrepreneur, Sikander, received financing from three micro-venture capitalist to the tune of Rs. 300,000. He recently opened the shop to provide clean drinking water to the surrounding area with 500+ households. This social business leverages sustainable business practices to address the public health need for safe water. Access to clean water and sanitation facilities are pressing conditions in rural India and MicroVentures has enabled this social cause to become a viable social business. In order to achieve long term, sustainable development in rural India, financial models beyond traditional loans and saving are essential. MicroGraam continues to develop innovating financings for the needs of our borrowers and we are looking forward to helping micro-entrepreneurs start more MicroVentures in various sectors.

UshaGopinath, Accion, Bangalore (Response 2)

I second the suggestions of Madhu Sharan in bringing about thoughts on **“Women’s inclusion and Empowerment” or “Women’s entrepreneurship and empowerment”**. I want to share Accion’s engagement in imparting entrepreneurial training initiatives to both MFI’s and NGO’s who have a strong vision to build business skills of women entrepreneurs across India through various partnerships. Some of which are routed through CSR arm of foundations mooted by companies. Unfortunately the larger gamut of MFI’s are not taking a leadership role in building capacities of borrowers and make them entrepreneurs as we believe from our experience that **“entrepreneurs are not born but are made”**. It is not in their DNA but we as institutions need to come forward in enhancing the skills of micro entrepreneurs.

The present and continuing crisis has made the MFI space not a welcoming sign to take up these training initiatives as these programs requires a team of dedicated trainers and institution's willingness to invest is still a question. But if this is part of financial inclusion and is made mandatory, then entrepreneurship and empowerment go hand in hand in making these borrowers where more than 60% are women as responsible as they are considered are made aware to make informed decisions through training initiatives.

By access to finance, are we encouraging women or borrowers to take up productive livelihood activities? this is something all MFI's should re-think and strategize on activities that can be built along with the loan component but taking care not to piggy bank and force customers to take up training because they have a loan, then the purpose of entrepreneurial training is lost .

[Ajimon. L](#), EMFIL, Kanyakumari

MicroVenture investment model seems to be an attractive concept compared to traditional microcredit lending options. The innovative efforts of MicroGraam are much appreciated as it aims to bring an array of diverse financial tools for India's underprivileged rural poor. As I understand, in MicroVentures, a micro-entrepreneur and a micro-venture capitalist enter into a revenue sharing agreement, which enables the two partners to create a micro enterprise and upscale it to a small enterprise (MSE). Although traditional microcredit provides the essential services of access to credit, however entrepreneurs who are willing and able to undertake larger business ventures are unable to do so under the current paradigm.

I see this model very different from other MFI models in the context that the focus is not only on profit making but also on providing services to the marginalized people by linking them with venture capitalists. In my views this creates a win-win situation for both the parties through an intermediary like MicroGraam.

Basically, it is a joint venture therefore, if the enterprise is managed wisely and monitored closely with support of organizations like microgram, it will provide good livelihood options for the poor with shared risks and benefits.

[Veerashekhharappa](#), Institute for Social and Economic Change, Bangalore*

About the structure of SOS 2012 report, it is important to decide whether we want it as an informative report on MF or informative as well as academic report. Besides the yearly version of the State of the Sector report, it will be useful to come out with a comprehensive report once in three years with good literature review. For this eminent scholars working in the sector can be engaged to do research and documentation. For instance, a chapter to be on SHG-BL, where one can bring with literature a practitioner's problem, where a policy issues can be brought and that may be forwarded to the policy decisions. Similarly, Federation of SHGs, problems of defaults, procedures in lending policies of MFI, as they are not homogenous. I think, issue based chapters to be brought, which will provide a support of development of the sector. Even one can make attempt, collecting research based studies report, a review can be brought out, which may emerge as a knowledge based document.

Rajesh Kumar Verma, Microfinance Consultant, Khajuraho, Madhya Pradesh*

As a micro finance consultant working for an association - DevidineKhajuraho,Madhya Pradesh, I have been able to corroborate the following through my experience in the field -

Social and Financial Performance Management

What are the initiatives that have been taken up by organizations/institutions for protecting the consumers/clients availing MF services and how far these initiatives are effective at client's level?

RBI has asked each and every microfinance provider to register so that their lending profiles could be administered by the rating agencies. A cap on the interest rates, small repayment intervals say on daily or weekly basis to make repayment easy are some of the good initiatives. The microfinance through the SHGs among its members is still the most advisable mode to do savings and avail credit.

Policy and Regulatory Environment for Microfinance

How far the proposed policy and regulatory initiatives contribute to the growth and performance of the MFIs in India? What are the necessary changes required for the smooth functioning of the MFIs in India?

Microfinance is the need of the hour because channelized agencies are unable to penetrate each and every corner of the business area; especially among the far flung rural ones and among the petty traders functioning at that level. The MFIs are to be regulated well and not to be left unmonitored so that the poor customers are protected.

Venture capitalists who are working in the rural areas to make quick money are no better than the ancient money lender therefore there is a need to monitor the micro financing activities that are going on in rural areas.

Innovative Experiments / Success stories of financial inclusion

What initiatives have been taken up by various institutions for the financial inclusion of the people living in remote areas and how far these efforts have contributed for effective inclusion?

Financial inclusion is now a state subject and all the financial agencies working in the area have been asked to open one banking branch (USBs) at each population level of 2000. The concept of Panchayat banks has also been mooted. Besides, the RBI has extended the facility of RTGS or NEFT to all the rural cooperatives/bank branches through its nodal clearance house at Mumbai.It has immensely facilitated the rural migratory masses in remitting funds by paying nominal charges. At places mobile banking/ mobile ATMs have also been introduced.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange for the Microfinance Community in India at se-mf@solutionexchange-un.net.in with the subject heading "Re: [se-mf] Query: State of the Sector Report 2012 for Microfinance - Experiences; Examples. Additional Reply."

Disclaimer: In posting messages or incorporating these messages into synthesized responses, the UN accepts no responsibility for their veracity or authenticity. Members intending to use or transmit the information contained in these messages should be aware that they are relying on their own judgment.



Copyrighted under Creative Commons License "[Attribution-NonCommercial-ShareAlike 3.0](https://creativecommons.org/licenses/by-nc-sa/3.0/)". Re-users of this material must cite as their source Solution Exchange as well as the item's recommender, if relevant, and must share any derivative work with the Solution Exchange Community.



Solution Exchange is a UN initiative for development practitioners in India. For more information please visit www.solutionexchange-un.net.in

