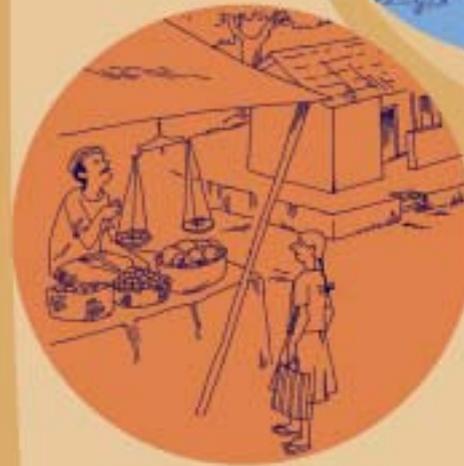
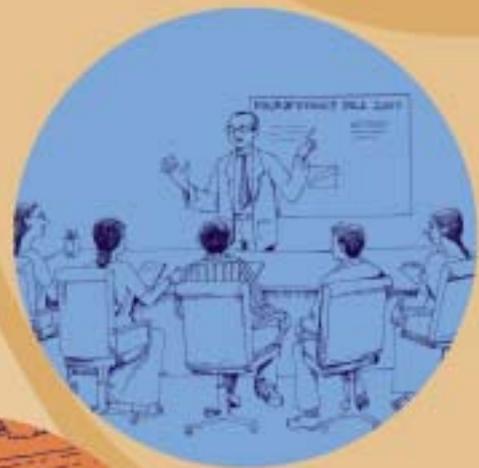
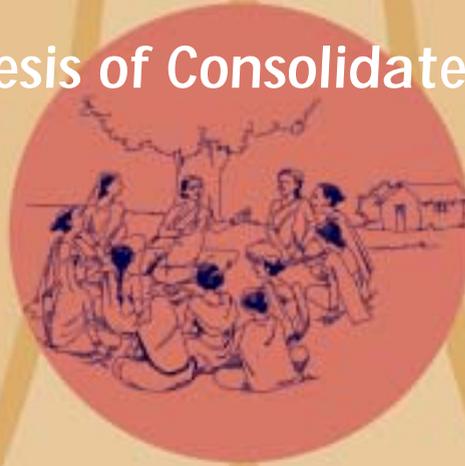


Knowledge Products of **Microfinance**

A Synthesis of Consolidated Replies



Knowledge Products of Microfinance A Synthesis of Consolidated Replies



Poverty

Microfinance Community



Vision of Microfinance Community

The Microfinance Community works to reduce poverty through microfinance initiatives and innovations leading to enhance financial inclusion; helping to develop appropriate technical, organisational, operational and policy environment to achieve MDGs relating to the eradication of Extreme Poverty & Hunger and targets set out in Eleventh Five Year Plan.

Focus Areas

- ◆ Creating an enabling policy and operational environment for promoting financial inclusion
- ◆ Enhancing the 'depth' of microfinance by addressing disadvantaged groups and 'breadth' of microfinance in terms of reaching out to remote and disadvantaged areas.
- ◆ Microfinance for specific sub-sectors, cluster, for sustainable Livelihoods
- ◆ Strengthening range of microfinance products and services
- ◆ Promoting Innovative products and diversification of Financial Services
- ◆ Identification, propagation and use of innovative MF delivery mechanisms
- ◆ Facilitating in development of organisational structures
- ◆ Focus on grassroots level microfinance operation issues
- ◆ Promoting new technologies, systems and tools for financial inclusion, management of MF Projects

For further information about the Microfinance Community

Visit: <http://www.solutionexchange-un.net.in/en/index.php> and click on the Microfinance Community link.

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Foreword

Solution Exchange is a knowledge sharing initiative of the United Nations in India, targeted at helping development practitioners to move towards attaining national and Millennium Development Goals. The Microfinance Community of Solution Exchange brings together persons working on financial services for meeting basic needs, enhancing investment in income generating and asset-building activities, and addressing risks for the poor. Since its inception in October 2006, it has emerged as a neutral platform to connect grassroots workers, Micro Finance Institutions, banks, private sector and government agencies, and has issued about 50 knowledge products in the form of Consolidated Replies (CRs) to queries. The incorporation of suggestions by the microfinance community into Reserve Bank of India guidelines on mobile banking payments is an illustration of the catalytic policy role that the microfinance community has started playing in the country.

The Advisory Group for the community (called the "Resource Group") appreciated these stand-alone CRs the community has brought out in the past two years. However, they expressed an urgent need for synthesising these CRs around common themes, and issuing the synthesis as separate value added knowledge products. The current volume is the first of such attempts. In addition to containing all CRs issued so far by the Microfinance Community, it also contains a synthesis of the CRs around the following themes:

- Microfinance Products, Services and Delivery Mechanism
- Microfinance for Livelihoods and its Sub sectors
- Microfinance for Inclusion
- Microfinance Technologies, Tools, Processes and Systems
- Enabling Policy and Institutional Environment for Microfinance

The synthesis papers present an overview of the discussions held within the Community on these themes. More importantly, they also identify the strategically crucial issues that need to be taken up for discussion in the coming year.

For practitioners of microfinance this volume is a reference book for trouble shooting and problem solving on day-to-day problems faced by them in implementing microfinance at grassroots. For others, it should be useful for guiding future work on various innovative issues (e.g. 'Health Mutuals', Microfinance in disaster affected areas, Micro health insurance, Housing microfinance for the poor, etc.). The document will be of special interest to agencies working on financial inclusion of the most disadvantaged groups in India, such as UNDP and ILO. The volume also lists agencies and experts working on various topics within Microfinance, who may be available as a common pool resource to guide formulation of new projects and to design ongoing projects.

UNDP is open to partner organisations in different states translating this document into regional languages and disseminating it to a wider audience.

I look forward to this publication being used widely to work towards achieving financial and economic inclusion of the poorest and the disadvantaged sections in the country.

Best Wishes,

Deirdre Boyd
Country Director
United Nations Development Programme
New Delhi, India

Acknowledgements

The 'Knowledge Products of Microfinance - A Synthesis of Consolidated Replies' is a joint product of Solution Exchange, United Nations and United Nations Development Programme, India.

The preparation of this synthesis document owes a great deal to all the contributors of 50 Knowledge Products incorporated in this document. These contributors are from almost all the states of India and from a variety of organisations - NGOs, Civil Society institutions, Microfinance institutions (MFIs), Cooperatives, Research and Management institutions, private companies, Government, UN organisations and independent experts.

The idea of this synthesis document and its composition came from various sources such as one to one discussions with Deirdre Boyd (Country Director – UNDP, India), Prema Gera (Head, Poverty Unit, UNDP India), Pankaj Shrivastav (M & E Analyst, UNDP, India) and from suggestions of Resource Group members of Microfinance Community. Prema and Pankaj continued their support by providing their guidance in technical and conceptual issues throughout the process of publication of this synthesis document. Publishing this document has become possible only because of them.

We convey our gratitude to Deirdre, Pieter Bult (Deputy Country Director, Programmes, UNDP) and Maxine Olson (Resident Representative, UNDP, India and Resident Coordinator, UN, India) for being convinced about the idea of synthesising the knowledge products. Another source of guidance, support and motivation was Anand Kumar, Coordinator Solution Exchange and also a 'Peer Guide'.

We also place on record our wholehearted thanks to our peer reviewers Mr. Harish Chotani and Mr. Brij Mohan for their suggestions on Synthesis papers and to Mr. Peter Westman for editing the synthesis papers and overview. We also convey our gratitude to Nitya Jacob, Resource Person, Water Community for his guidance and support in editing. We will be failing in our duty, if we do not express our gratitude and thanks to Hari Mohan Programme Associate, UNDP, who has extended the utmost cooperation in the successful completion of this assignment. We thank the dynamic UNDP Communication team members – Eva van Beek, Muna Haq and Sabrina Sidhu, who supported us from time to time during publication of this document.

Thanks are also due to Anjum Khalidi, Sachin Kumar and Nupur Bahl, who, at various points in time, have made valuable contributions especially in doing research on the topics of discussions as Resource Team Members of Microfinance Community.

We are highly indebted to Sumeeta Banerji, Ranu Bhogal for their contributions as Resource Persons for the Microfinance Community. A number of Consolidated Replies in this document are outcomes of their expertise and skills. We also thank Resource Teams of other Solution Exchange Communities who cross-posted queries along with the Microfinance Community. We also place on record the guidance and support of Vinita, Mayank and Sarah from Solution Exchange on various aspects.

Finally, we convey our sincere thanks to New Concept Information Systems for their efforts during printing this compilation.

Resource Team
Microfinance Community of Practice
Solution Exchange

Acronyms and Abbreviations

ATM	Automated Teller Machine
BC	Business Correspondent
BDS	Business Development Service
BF	Business Facilitator
BPL	Below Poverty Line
CB	Commercial Bank
CD-Ratio	Credit to Deposit Ratio
CGAP	Consultative Group to Assist the Poor
CR	Consolidated Replies
FSPs	Financial Service Providers
GoI	Government of India
ILO	International Labour Organization
IRDA	Insurance Regulatory and Development Authority
IT	Information Technology
JLG	Joint Liability Group
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
KCC	Kisan Credit Card
KYC	Know Your Customer
LAB	Local Area Bank
LIC	Life Insurance Company of India
MACS	Mutually Aided Cooperative Societies
MDG	Millennium Development Goals
MF	Micro Finance
MFDEF	Micro Finance Development and Equity Fund
MFI	Microfinance Institution
MIS	Management Information System
M&E	Monitoring and Evaluation
MoRD	Ministry of Rural Development
MoU	Memorandum of Understanding
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NRFIP	National Rural Financial Inclusion Plan
NGO	Non-Government Organisation

NSSO	National Sample Survey Organisation
NREGA	National Rural Employment Guarantee Act
NREGP	National Rural Employment Guarantee Programme
OBC	Other Backward Classes
PACS	Primary Agricultural Credit Society
POS	Point of Sale
PRI	Panchayati Raj Institution
RBI	Reserve Bank of India
RFA	Revolving Fund Assistance
RFI	Rural Financial Institution
RPCD	Rural Planning and Credit Department of RBI
RTGS	Real Time Gross Settlement
SBI	State Bank of India
SBLP	SHG Bank Linkage Programme
SC	Scheduled Caste
SGSY	Swarnajayanti Gram Swarojgar Yojana
SJSRY	Swarnajayanti Shahari Rojgar Yojana
SHG	Self-Help Group
SHPI	Self-Help Promotion Institution
SOS	State of the Sector
ST	Scheduled Tribe
TFFI	Technology Fund for Financial Inclusion
UN	United Nations
UNDP	United Nations Development Programme
UNCDF	UN Capital Development Fund
UT	Union Territory

Contents

<i>Foreword</i>	iii
<i>Acknowledgements</i>	iv
<i>Acronyms and Abbreviations</i>	v
<i>Overview</i>	ix
A. Microfinance Products, Services and Delivery Mechanisms	1-94
Synthesis Paper 1	3
i. Micro-Credit – Products, Services and Delivery Mechanisms	5
• Diversified Credit Products to SHG Members under SBLP	6
• Revolving Fund for Household WatSan Facilities	12
• Housing Microfinance for Poor	19
• Financial Service Delivery Channels	26
• Human Development through Microfinance	30
ii. Micro Insurance – Concepts, Products, Services and Delivery Mechanisms	39
• Delivery of Micro Insurance Services	40
• Alternative Micro Insurance Products and Delivery Mechanisms	49
• Disaster Risk Insurance for Vulnerable Communities	56
• Micro Health Insurance for Disadvantaged Groups	62
• Appropriate Legal Structure for Health Mutuals	68
• Insurance and HIV	74
iii. Savings – Products, Services and Delivery Mechanisms	81
• Providing Savings Services by NGO-MFIs and NBFCs	82
iv. Transfer of Money – Remittances, Payments and Services	89
• Extending Remittance Services to MFI Clients	90
B. Microfinance for Livelihoods and its Sub Sectors	95-162
Synthesis Paper 2	97
i. Client Focused Microfinance and BDS for Livelihood Promotion	99
• Delivery of Business Development Services by MFIs	100
• Client Focused Microfinance for Livelihoods	108
• Urban Microfinance and Employment	114
ii. Microfinance in Sub-Sectors of Livelihoods	119
• Micro Insurance Development for Mature Microfinance Clients	120
• Micro Enterprise Development as an Extension of Microfinance Programmes	126
• Microfinance Needs and Institutional Livelihood Models for Fisherfolk	131
• Microfinance for Micro Dairy Enterprises	136
• Impact of Bt Cotton	143
iii. Microfinance for the Livelihoods of the Disaster Affected and Vulnerable People	151
• Microfinance and Livelihood Support Projects in Disaster Affected Localities	152
• Microfinance through Urban Local Bodies for Disaster Preparedness and Poverty Alleviation	157

C. Microfinance Initiatives for Inclusion	163-200
Synthesis Paper 3	165
i. Coverage of Microfinance in Geographic Context	167
• Expansion of Microfinance to Northeast India	168
• Microfinance Services for Mountain and Other Remote Areas	174
• Model for Urban Microfinance	180
ii. Social and Economic Perspectives and Inclusion	187
• Microfinance Models for Muslim Community in India	188
• Microfinance Services through Mobile Phone Banking in Remote Areas	192
D. Microfinance Technologies, Tools, Processes and Systems	201-264
Synthesis Paper 4	203
i. Monitoring and Evaluation in Microfinance Programmes and Projects	205
• Impact Assessment of Microfinance Initiatives	206
• Collecting Evidence of the Impact of Microfinance	212
• Social Performance Strategies for MFIs	218
ii. Management Tools and Technologies for Microfinance	223
• Over-borrowing from Multiple MFIs	224
• Identifying Technology Services Needs for the Microfinance Sector	228
• Developing Indicators to Assess Client Size	235
• Models for Operational Efficiency of MFIs	242
• Designing Credit Risk Assessment Tools to Reach the Poor	249
• Developing a Portfolio Risk Hedging Product	255
• Capacity Assessment of Micro Insurance Providers	259
E. Enabling Policy and Institutional Environment for Microfinance	265-242
Synthesis Paper 5	267
i. Funding and Strategies for the Growth of the Microfinance Sector	269
• Partnering with Financial Institutions for Microfinance Services	270
• Funding Landscape for Start-Up MFIs	275
• Selection/Support of Small NGO-MFI Start-ups	280
• Coverage of India's MFIs and SBLP	284
• Critical Areas and Strategies to Scale-Up Microfinance Investments	289
• State of the Sector Report for Microfinance	294
ii. Policy, Organisational Structures and Linkage Platforms for Microfinance	303
• Mobile Payment Guidelines of RBI	304
• SHG Federations as Vehicles for Social Change	310
• Resources on Forming SHGs and Streamlining Procedures	318
• Creation of a Sustainable Community-based Microfinance Model	325
• Market Place for Social Enterprise Capital	332
iii. Human Resource Development in Microfinance Institutions	337
• Incentive System and Retention Strategies for MFI Staff	338
List of Consolidated Replies	343-350

Overview

In the U.N. Millennium Summit held in 2000, the goal of cutting extreme poverty in half by 2015 was declared and, therefore, the adoption of the Millennium Declaration became a defining moment for global cooperation as it brought poverty eradication on to the global map. Since poverty alleviation is a key agenda for UN and the Indian Government, 11th Five Year Plan document has given due importance to it by focusing on social and economic inclusion of the poor. The plan emphasises creation of employment opportunities, access to financial products and services, equality of opportunity, empowerment and skill development, particularly for the deprived groups.¹ In various forums on inclusion and also in the microfinance community, linking of microfinance with livelihoods and social sector services such as education, health, water and social security is emphasised. Also, there is need for convergence with schemes of Government.

Finding microfinance, an important component for inclusion, Dr. C Rangarajan's Committee report on financial inclusion² has focused on strategies, technologies and a delivery mechanism for reaching the poor and providing them timely, adequate and affordable financial services. This requires shifting from the 'Supply led approach' to a 'Demand let approach' by the MFIs and other players of microfinance sector. The estimates of National Sample Survey organisation (NSSO) reveals that out of 89.3 million farmer households, nearly 45.9 million households does not have access to any credit; this is over 50 per cent of such households. If we look at the institutional financing, we will find that only 27 per cent of people receive institutional financing. This data confirms the need for integrated efforts of all the players in microfinance sector.

The Microfinance Community of Practice, Solution Exchange, working as a catalyst and promoter of microfinance development in India has been a unique player in the whole gamut since more than two years. It has a holistic vision - "The Microfinance Community

works to reduce poverty through microfinance initiatives and innovations leading to financial inclusion and helps to develop appropriate technical, organisational, operational and policy environment to achieve MDGs relating to the eradication of Extreme Poverty & Hunger and targets set out in Eleventh Five Year Plan." The community's activities have been based on this vision and therefore discussions have taken place on various themes to give a synergised output.

In this synthesis document, all the 50 knowledge products of microfinance community are classified into five major themes which deals with technology, microfinance products, services and delivery mechanisms, organisational structures, policy, regulatory and legal issues as well as strategies for financial inclusion and support for livelihood promotion.

The microfinance community justifies its contribution to the microfinance sector by visualising it in a holistic manner. Practically, microfinance comprises three different environments - internal (Micro), intermediary (Semi Macro) and external (Macro).

In the internal environment, there is a variety of MFIs, some adopting a minimalist approach while others opting for an integrated approach by undertaking financial intermediation services as well as non-financial intermediation services. This environment also includes the clients and a variety of groups and federations. The issues for this environment would be related to the internal management systems of MFIs and the approach they apply for microfinance.

The intermediary environment primarily relates to MFIs and their interventions and interactions with different clients-individuals as well as Groups. It also incorporates the interactions between MFIs and different wholesalers, semi-wholesalers, national level banks, apex institutions promoted by different ministries providing financial and technical support to

¹ Poverty Unit, UNDP, Project brief of State Level Support to Livelihood Promotion Strategies, UNDP India, 2008

² As per Dr. Rangarajan's report, Financial Inclusion is defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

these MFIs. Here, the issues are related to programmes and schemes of these organisations, demand of MFIs, products and services offered to MFIs and to the clients, expansion of outreach, delivery mechanisms and microfinance for Livelihoods.

The external environment is the third level which influences the internal and intermediary environment of microfinance. In the external environment, besides policy and regulatory organisations, platforms supporting networking and collaboration of different players exist. For this environment issues are related to microfinance policy, different Acts and rules of microfinance and associate sectors, Guidelines of regulatory bodies for various functions such as mobile bank payments, etc., and platforms and forums supporting the promotion of microfinance sector.

Keeping in view the MDGs, the vision of the microfinance Community and needs of the three environments to influence the development of microfinance sector in a synergised way, the knowledge products of microfinance community have contributed to the microfinance sector in an integrated manner. A good example of this could be three queries undertaken in the community in series: mountain and remote areas on identification of the microfinance demand in remote areas (internal environment); mobile phone banking on details of the innovations and the organisations providing mobile banking options (intermediary environment) and; RBI's mobile phone banking Guidelines and the revision of the guidelines by RBI. In this example, microfinance community of Practice contributed to all the three environments including policy/Guidelines.

The scoping paper on financial inclusion (UNDP)³ communicates clearly that "inclusion" has to go beyond financial inclusion and encompass livelihoods, economic and social inclusion. It requires working at every level of the value chain and not just credit/loan finance. Therefore, it calls for the delivery of bundled financial services integrated with the overall livelihoods framework. The future agenda in the State of the Sector Report 2008⁴ mentions that the growth is confined to credit with very little insurance and even, less savings coverage offered. It also talks about the need for deeper engagement with clients in terms of larger and diversified products. In the

recent Micro Finance India Summit 2008⁵ – The Poor First, a wide range of issues were raised and discussed. These issues include – social objectives to microfinance, urban microfinance, challenges in coverage of micro pensions, Products and delivery of micro insurance services, Financial Literacy of clients, Transparency and pricing of microfinance products, technology for microfinance, savings options and policy environment, Community based microfinance models and Social Performance.

Based on the scoping paper, state of the sector report 2008, discussions with the regional technical Advisor (Asia) UNCDF⁶, Microfinance India Summit 2008, earlier discussions and suggestions from the resource Group, the following areas need further deliberation:

On Policy, Regulatory and Organisational Issues/ Inclusion

- Microfinance Bill, review of cooperative societies Acts in context of microfinance and National Federation of SHGs
- Role of Primary Agriculture Cooperative Societies (PACS) and Post Offices as financial intermediaries for enhancing inclusion
- Money Lending Acts, Fair Trade practices in microfinance, transparency and pricing of microfinance products and regulations for 'Health Mutuals' and savings services
- Convergence of various initiatives for microfinance and Livelihood

On Technology, Tools and Processes

- Social security payments through biometric smart cards, ICT based MIS and M&E in MFIs, technology for Credit Information Bureau and technology options for remittances and payments

On Micro Finance Services for Livelihoods/Products and Services/Social Security

- Microfinance for different sub-sectors, micro leasing for disaster affected and vulnerable people
- Microfinance for bonded labourers/rag pickers, microfinance for higher education/skill development and Financial literacy of clients
- Microfinance Products such as voluntary savings, Portfolio insurance, micro health insurance and challenges in coverage of micro pensions

³ Ramesh Arunachalam, Scoping Paper on Financial Inclusion, New Delhi: Poverty Unit, UNDP, 2008

⁴ N. Srinivasan, Microfinance India - State of The Sector Report 2008, New Delhi: Sage Publications, 2008

⁵ Access Development Services, Resource Book - Microfinance India Summit, New Delhi, 2008

⁶ UNCDF's microfinance programmes provide poor households and enterprises with enhanced access to a wide range of financial services by promoting inclusive financial sectors and providing investment capital for emerging microfinance institutions (MFIs) and other financial service providers (FSPs) in the Least Developed Countries.

1



Microfinance Products, Services and Delivery Mechanisms

Synthesis Paper 1

The portfolio of microfinance products and services has dramatically changed in the past one decade with the entry of a variety of microfinance service providers and intermediaries. Today, microfinance products and services broadly include – credit, savings, insurance, money transfer (i.e. remittances, payment systems) and micro-leasing products. Delivery mechanism incorporates the systems that can be used to ensure that microfinance products reach remote areas and poor. In the past one year, the Microfinance Community has discussed all these four types of microfinance products and delivery mechanisms, and particularly micro insurance and micro-credit related issues.

Historically, the Raiffeisen Model, developed in Germany in 1864, was one of the first initiatives geared towards a microfinance-led focus on savings products and the promotion of cooperative Unions. Until the 1980s, the portfolio of microfinance products and services in India was limited to a limited product range of mainly credit and savings. Thrift and credit cooperatives, rural branches of commercial banks and Regional Rural Banks were the primary sources of institutional financing.

Over the past two decades, a proliferation of multiple MFI structures and their transition from a minimalist to a more fully integrated approach has taken place. In this context, the microfinance community endorsed the report¹ on financial inclusion by Dr. Rangarajan's Committee, which emphasises enhancing access to financial services through innovative, effective and efficient delivery mechanisms and providing timely, adequate and affordable credit to the poor. The Community endorsed RBI's "Business Facilitator" and "Business Correspondent" Models² as recent examples of new delivery mechanisms. Similarly, they mentioned mobile phone banking systems, ATM and biometric cards as technological innovations for microfinance.

Community members discussed customised microfinance services such as NABARD's SHG-Bank Linkage Programme - the first large-scale microfinance initiative in India. The programme had focused on increasing access to savings and credit in rural areas and demonstrated the feasibility of providing customised banking services to SHG clients. Additionally, the Community stressed the need for enhancing the available portfolio of need-based, diversified credit products and for making existing pro-poor financial products more client-oriented through focus group discussions and feedback. In this vein, the group discussed financing of small household water and sanitation facilities, and suggested that revolving funds could be a solid mechanism to make these facilities accessible for the poorest at the widest scale. They categorised housing microfinance and "work shed-cum-home" schemes of the Government as 'Productive loans', as these are linked to livelihoods of the poor. Key strategies members suggested for housing products were to customise these based on client repayment capacities, collaborating with formal financial institutions, and using SHGs as intermediaries for housing loans. Discussions also revealed that SHG members often utilise loans to address family or household needs, such as an illness in the family or for educating children. However, as resources increase, SHG members tend to graduate to loans for livelihood activities. Similarly, although loans for health and education purpose are normally seen as consumption loans by MFIs, Community members felt that these are loans for 'Human Capital Development' and an effective investment in communities.

Discussing adoption of innovative delivery mechanisms, the Community suggested alternate delivery mechanisms for financial services such as engaging social agencies to deliver financial services on behalf of MFIs, developing strategic partnerships with insurance companies and retailers, using Business Facilitator, Correspondent or Franchisee models, and

¹ National Bank for Agriculture and Rural Development (NABARD), Report of the committee on Financial Inclusion (Dr. Rangarajan Committee), New Delhi, 2008.

² Reserve Bank of India, Circular on Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, Mumbai, January 2006.

establishing branchless operations using low-cost technologies (e.g. ATMs and call centres). Technology driven delivery channels will bring down transaction costs and enhance service outreach, thus addressing the financial inclusion agenda. Post Offices, insurance agents and well functioning Panchayats could also function as 'Business Facilitators' for banks.

As many as six discussions revolved around micro insurance, an issue that has become increasingly critical for social security globally. A recent UNDP study³ estimates that in India alone, the untapped market for both life and non-life micro insurance is between \$1.4 billion and \$1.9 billion, and as much as 90 per cent of the population, or 950 million people, are excluded from such services. Members pointed out that the benefit of these schemes depends largely on the delivery mechanism adopted by the agencies. The Community narrowed down the principal players of the value delivery chain of micro insurance into four categories - Supply Side players (Insurance Companies, Hospitals etc.), Demand Side players (disadvantaged people), Intermediary Organisations (NGOs, SHG federations etc.) and Other Organisations (regulatory bodies like IRDA, Banks and Research/ Training institutions). In addition, members emphasised the role of intermediary organisations for ensuring that benefits reach the poor. The key strategy for micro insurance suggested by the group was creating a self-sustaining social security system, with intermediary institutions owned and governed by communities themselves playing a central role.

In this context, members underlined Health Mutuals as a promising concept to provide health risk coverage and cited examples where 40,000 people in slums of Pune and rural Marathwada in Maharashtra jointly share their health risks. The Insurance Regulatory and Development Authority has yet to establish guidelines and regulations for such vehicles. Multi-State Cooperative Societies Act and Mutually Aided Cooperative Act were suggested as the most applicable legal frameworks for health mutuals.

Pointing out the immense value of small savings for the poorest, which buffer them against many risks and emergency needs, the Community emphasised the urgent need to increase access to savings services for the poor, along with creating a favourable regulatory environment. Currently, NGO-MFIs and

select organisations and individuals are permitted by the law to work with banks to mobilise savings under RBI's Business Facilitator and Business Correspondent models. As innovations, members suggested introducing a wide range of savings products (e.g. micro-pension schemes, micro-mutual funds, daily deposit schemes of urban cooperative banks) and innovative delivery mechanisms (e.g. Bank- Business Correspondent model and Indian Postal system network). Further, the long-awaited Microfinance Bill (2007), which permits Microfinance organisations, including NGO-MFIs, to collecting savings would drastically alter the sector. The Cooperative Union Model, based on Raiffeisen's design, also allows for mobilisation and appropriate utilisation of savings for lending. The group also suggested a revision of various Cooperative Societies Acts to facilitate enhancement of savings services through cooperatives.

Another financial service members discussed as crucial for poor migrant labourers was Money transfers, particularly remittances and payment services for reducing transaction costs and for improving efficiency. Migrant labourers sending money to their homes need affordable, reliable, convenient and widely accessible money transfer services. The discussion identified technological innovations such as ATMs, Smart Cards, biometric cards, and mobile phone banking as most effective media for remittance and cited examples from other countries (e.g. Smart Communications in Philippines, 'WIZZIT' in South Africa, 'Mobitel Tanzania' in Tanzania, *XACBank* in Mongolia, 'M-PESA' in Kenya). The need for clear legal guidelines on this new technology for money transfers which members expressed was subsequently addressed by RBI by issuing mobile phone payment guidelines.

The Community identified the following as key issues for future dialogue:

1. Micro-leasing
2. Voluntary savings,
3. Technological innovations in money transfer systems
4. Intermediary organisations in micro health insurance
5. Bonded labour and microfinance,
6. Microfinance for rag pickers,
7. Revision of Cooperative Societies Acts
8. Microfinance Bill 2007
9. Inclusion of Post Offices in Distribution Chains

³ National Bank for Agriculture and Rural Development (NABARD), Report of the committee on Financial Inclusion (Dr. Rangarajan Committee), New Delhi, 2008.

I.
***Micro-Credit – Products, Services and
Delivery Mechanisms***



Consolidated Reply

Query: Diversified Credit Products to SHG Members under SBLP – Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate

Issue Date: 30 December 2006

From Rohit Raina, Access Development Services, Udaipur

Posted 11 December, 2006

Dear Members,

I am Rohit Raina, from Access Development Services, a technical service provider agency promoted by CARE India, working with different Non-Governmental Organisations (NGOs) and NGO-MFIs for serving microfinance and livelihoods needs of the development sector.

Our partner NGOs engaged with the Self Help Group (SHG)-Bank Linkage Programme (SBLP) in different states like Madhya Pradesh, Orissa etc. have experienced that SHG as a credit delivery platform has its own limitations. Under SBLP, banks provide loans to SHGs promoted by NGOs or banks, which are further redistributed by the SHG to its members. Generally, members do not go through any individual credit need assessments like cash flow and asset-liability analysis. Hence, the bank or NGO is not able to track credit performance at the individual level.

Due to this, at times the SHG defaults in repayment. As a result of this, the whole SHG gets punished. Also, under SBLP, SHG members lack the choice of diversified credit products. According to the **'Microfinance in India: A State of the Sector Report, 2006'** ([http://www.microfinanceindia.org/Docs/Sector Report.pdf](http://www.microfinanceindia.org/Docs/Sector%20Report.pdf)) by **Prabhu Ghatge**, weaker SHG members exit the group once it is over 7 to 8 years old due to stronger members' control on the loan delivered to SHG.

Contrary to this, MFIs offer diversified credit products to group members though loans to groups. They track loan repayment at group level as well as at the

individual borrower's level. By offering diverse credit products, one ensures that each group member gets to choose the appropriate product. Thus, unlike the SBLP model, the MFI model ensures that control on SHG loan by stronger members reduces.

With this background, I would request the network members to address the following:

- Would it be feasible for banks to extend diversified credit products to individual SHG members through SHG (a kind of hybrid SHG model for customised banking services to the poor), keeping the SHG's internal loaning and empowerment agenda intact?
- Are there such practices taking place anywhere under the SBLP?

The members' advice and experiences on the above would help us design innovative and more client responsive microfinance services.

Responses were received, with thanks, from

1. N. Jeyaseelan, Indian Bank, Madurai (Response 1; Response 2; Response 3)
2. P. Uday Shankar, Indian Association for Savings and Credit, Coimbatore
3. P. Krishnaiah, Department of School Education, Government of Andhra Pradesh
4. Sachin Kumar, UNDP, New Delhi
5. Smita Premchander, Sampark, Bangalore (Response 1; Response 2)
6. K. Loganathan, Association for Sustainable Community Development, Chengalpattu

7. Kedar Krushna Panda, BASIX, Bhubaneswar
8. N. Sudhakar, CARE-Credit and Savings for Household Enterprises (CASHE), Hyderabad
9. Debraj Bhattacharya, Panchayat and Rural Development Department, Government of West Bengal, Kolkata

Further contributions are welcome!

Summary of Responses

Responding to the query on extension of diversified credit products to individual SHG members under the SBLP, respondents shared several experiences to demonstrate the feasibility of providing customised banking services to meet the requirements of SHG clients. They emphasised the emergent need to make microfinance more clients' responsive by introducing diversified credit products and recording the end use of loans to better understand the needs of the poor. Respondents also discussed the present system of microfinance delivery by banks, MFIs and NGOs and recommended strengthening the role of MFIs/NGOs as financial and social intermediaries.

Discussants noted that they have encountered a limited number of banks providing diversified credit products. However, they were able to share some success stories of commercial and development banks providing customer oriented microfinance services, including public sector banks and regional rural banks in Tamil Nadu, Karnataka and Orissa. In some cases, financial institutions are extending loans to NGOs so the NGO can then lend to SHGs. Subsequently, SHGs can extend loans to their group members based on their needs. Additionally, respondents cited instances of financial institutions, both banks and MFIs, delivering a range of microfinance products designed to suit the needs of individual group members such as education, housing, enterprise and consumption loans. Discussants pointed out that banks and MFIs, which design need-based customised products for individual group members tend to have high client satisfaction ratings. Further, these banks have witnessed tremendous growth in SHG gross loan portfolio, due to the wide range of products they offer.

Drawing on the success stories of these commercial and development banks in providing diversified credit

products to individual group members, respondents attempted to analyse and make recommendations on National Bank for Agriculture and Rural Development's (NABARD) SBLP model. Respondents applauded the programme as a unique and effective way of providing financial access to millions of poor households. At the same time, the group cited the following limitations with banks' approach to SHG lending under SBLP:

- Banks largely provide credit to SHGs based on the size of its cumulative savings. The criteria for deciding on a loan are not based on the needs of SHG members.
- Banks lack the required skills to appraise individual's loan absorption and repayment capacity, which results in an under or over utilisation of loans, affecting repayment behaviour.
- Banks generally do not track loan repayment status at individual level only, but only at the SHG level.
- Bank staff lack specialised training to design specific products for clients who are SHG members.
- Banks generally do not record the end use of loans. Hence, it is difficult to understand the needs of the individual clients.

Members also suggested ways to make the SBLP more client-oriented and self-sustainable:

- Conduct market research with the help of technical service providers and market research tools to design value added microfinance products to meet the specific requirement of different segments of the community.
- Train bank managers to assess the needs of clients and effectively design new products.
- Create a mechanism for continuous customer feedback, to improve existing products and service delivery system including a system to track loan utilisation of individual SHG members to help design demand-based products.
- Analyse microfinance products based on their purposes and loan terms (i.e. cash payment versus recovery or doorstep versus branch recovery system).
- Have banks closely track the loan repayment history of groups and individual group members to ensure stability of the SHG before advancing subsequent loans as shown through the practice of using '**coloured passbooks**' to distinguish groups by their track record of repayment.

Contributors provided case studies of MFIs delivering multiple credit products to SHG members. Some banks are utilising the strength of NGO/MFIs as

intermediaries that provide need-based financing to SHG members. In Tamil Nadu, MFIs are providing different credit features to economically active poor. The MFIs provide loans to SHGs as a general-purpose loan and have skilled staff that appraise individual loan capacity before the loan is disbursed, followed by a loan utilisation analysis.

Sharing examples of NGOs from Karnataka, Tamil Nadu and West Bengal, respondents underlined the important role of NGOs in bridging the knowledge and relationship gap between banks and the rural poor. NGOs act as facilitating agencies, helping banks to reach out the poorest family through SHGs. Members gave examples of NGOs supplementing loans given by banks to the SHGs, by establishing revolving loan funds to address specific credit needs of individual group members. An alternate view offered was that individual loans have the potential to split groups and only group loans are effective, provided an NGO, which understands the group requirement, plays the role of intermediary between the group and the bank.

NGOs are also able to be tremendously flexible with poor clients, offering specific products based on the need, such as raising grants for vulnerable women's groups. However, in donor-funded projects, there is often pressure on NGOs and MFIs to demonstrate financial sustainability, thus restricting their ability to introduce need-based products.

Respondents agreed that SBLP model has increased access to microfinance services in rural areas through SHGs. However, they stressed the need to make existing pro-poor financial services more client oriented by designing financial products to meet the individual needs of the poor through market research and continuous feedback from the clients.

Comparative Experiences

Tamil Nadu

(from N. Jeyaseelan, Indian Bank, Madurai (response 1))

Bank Providing a Wide Range of Products to SHG Members

In 2003, Indian Bank at Usilampatti started offering microfinance under its special unit for microfinance project. Providing a range of flexible micro-credit products to over 1,000 SHGs, it has an outstanding portfolio of Rs. 7.5 crore out of the total branch's advances of Rs. 19 crore or 39 percent of the total business of the branch. The bank tracks loan repayment

at group and individual level to ensure stability of the group prior to advancing subsequent loans.

Stars can Change the Fortune of SHGs

Under Indian Bank's special unit for microfinance, passbooks are uniquely printed with stars and in different colours to designate creditworthiness. A SHG taking its first loan gets a red passbook. For their second loan, they get passbook with a single star and for the third loan one with two stars, and so on. Stars are printed prominently on the front cover page of the passbook. Each star indicates the number of loans successfully repaid by the SHG. This system has allowed banks to improve loan monitoring and recognition of good versus bad clients.

Extension of Loans to Groups through NGOs

(from P. Uday Shankar, Indian Association for Savings and Credit, Coimbatore)

Working with over 124 NGOs in seven districts of Tamil Nadu, the Indian Association for Savings and Credit is delivering diversified and client-responsive microfinance products to over 2,000 SHGs. It gives 14,000 clients 16 different kinds of micro-credit products including agri-loans, non-farm loans and loans for education, health and housing.

Providing Social Links between Banks and Groups

(from K. Loganathan, Association for Sustainable Community Development, Chengalpattu)

The Association for Sustainable Community Development, an NGO working in 26 villages of Thiruvannamalai district in Tamil Nadu, has formed 150 SHGs with 3,000 members. It has facilitated these groups to access loans from local banks. The NGO planned to form eight federations and two apex bodies out of 200 SHGs. After giving proper training to these apex bodies and making them self-reliant, it intends to move to new geographical areas.

Karnataka

(from Smita Premchander, Sampark, Bangalore (response 1))

NGO Providing Need Based Loans and Grants to the Poor

Sampark created a revolving fund and introduced an education loan to SHGs in Koppal district, as banks were not willing to lend them. It has given 72 members (as of November 2006) educational loan at an annual interest rate of 12 percent for one year, so that the group can get loans at the start of each new school

year. It also provided grants to 35 members and 330 children of very poor families (as of August 2006) for vocational training and education respectively.

Progressive Regional Rural Banks (RRB) Providing Flexible Credit to Women

A RRB in Koppal district, the Pragati Bank has been very progressive and offered credit to women's groups who can utilise it for any purpose. The interest rate is 12 percent and it is repayable in easy instalments over three years. The facilitating NGO, Sampark, works with the bank to help them reach out to the 75 poorest SHGs (covering 1,500 women), and prepares the women to strengthen their groups so they can qualify on bank standards.

West Bengal NGO playing Financial Intermediary Role between Bank and SHGs

(from Debraj Bhattacharya, Panchayat and Rural Development Department, Government of West Bengal, Kolkata)

Swanirvar, an NGO, was set up in 1990 to promote integrated rural development through local participation. It started microfinance operations at North 24 Parganas district as a financial intermediary between UCO Bank and SHGs. Besides financial services, it also provides capacity-building services. After partnering with CARE-CASHE, it is serving over 6,000 women with loan outstanding of Rs. 9 million. Now it is planning to federate SHGs.

Orissa

(from Kedar Krushna Panda, BASIX, Bhubaneswar)

Dynamic Regional Rural Bank Lending to Individual SHG Members

Rushikulya Gramya Bank in Bhanja Nagar sub-division of Ganjam district provides credit facility to SHGs and individual members of the SHGs where the credit requirement could not be met through group lending. It provides individual loans primarily for production purposes like agriculture, agriculture-allied (goat rearing, livestock and agri-implements) and business purposes.

Multiple States

Livelihood Promotion Institution serving Multiple Needs of SHG Members

BASIX, a livelihood finance institution working in over 50 districts, provides market oriented financial services to the poor, organised into SHGs and their federations. As of March 2006, it offered credit of over Rs. 448 million to 700 SHGs besides providing various

insurance services. It provides loans to SHGs under general loan category, however, the staff does proper credit appraisal of the loan capacity of individual SHG members before loan disbursement.

CARE-CASHE Project making SHG-Bank Linkage Programme more Client-Responsive

(from N. Sudhakar, CARE-CASHE, Hyderabad and Smita Premchander, Sampark, Bangalore; response 1)

CARE India's largest microfinance project provides consulting and financial services to NGO-MFIs, which are engaged in SBLP in states like Andhra Pradesh and Orissa. It helps in designing and conducting market research for creating need-based microfinance products and services for SHGs, besides collaborating with insurance agencies to offer life and non-life insurance to SHGs. Moreover, it also trains bank managers for better implementation of SBLP.

Bank making Business Sense out of SHG Lending

(from Sachin Kumar, Research Associate)

Under the Grameen project, the Oriental Bank of Commerce opened bank branches in Uttarakhand, Rajasthan and Punjab serving SHG clients. It provided loans at the doorstep of SHGs and individuals at 9 percent annual interest rate and has covered 287 villages through 67 branches so far. Appointing its own staff at branch level, it has disbursed Rs. 21 crore among 3,668 SHGs until June 2006. The groups have also contributed almost Rs. 4 crore as savings.

Related Resources

Recommended Organisations

(from P. Uday Shankar, Indian Association for Savings and Credit (IASC), Coimbatore)

Palmyrah Workers Development Society, Kanyakumari

Crystal Street, Marthandam-629165, Kanyakumari, Tamil Nadu; Tel: 91-4651-270241 or 270138; palmarts@eth.net; <http://www.pwds.org>

NGO involved in SHG promotion, it plays a social intermediary role between IASC and SHGs wherein IASC provides diversified credit products to SHGs.

Indian Association for Savings and Credit (IASC), Madurai

205, Chinnasamy Naidu Road, New Siddhapudur, Coimbatore-641044, Tamil Nadu; Tel: 91-422-5388867/9867; Fax: 91-422-5388867; admin@iasc.in; http://www.iasc.in/products_services.html

A section 25 company providing flexible and diversified loans to SHGs and individuals in rural and urban areas under three broad types: housing, economic and other loans.

Indian Bank's Special Unit for Microfinance (IBSUM), Chennai

(from N. Jeyaseelan; response 1)

P.B. No.1384, 66, Rajaji Salai, Chennai-600001, Tamil Nadu; Tel: 91-44-25233231/25231253; Fax: 91-44-25231278; indianbank@vsnl.com; <http://www.indianbank.in>

Government owned bank, which provides diversified credit products to SHGs for meeting education, housing, agriculture and agri-allied needs under IBSUM project.

Rushikulya Gramya Bank, Ganjam

(from Kedar Krushna Panda, BASIX, Bhubaneswar)

Aska Road, Ganjam, Berhampur-760001, Orissa
State owned development bank aims to serve the rural poor, especially micro- entrepreneurs, in agriculture and non-farm sectors, along with SHG lending.

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001; Tel: 91-40-30512500/1; Fax: 91-40-30512502; info@basixindia.com; <http://www.basixindia.com>

Livelihood promotion institution providing diversified credit and insurance services to SHG members to meet different needs including health, livestock and life insurance.

(from Rohit Raina, Access Development Services, Udaipur)

National Bank for Agriculture and Rural Development-SBLP, Mumbai

Plot No. C-24, "G" Block, 2nd Floor, "E" Wing, Bandra Kurla Complex, P.B. No. 8121, Bandra (East), Mumbai-400051; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm>

Apex institution, father of SBLP, provides refinancing and technical assistance to banks and NGOs involved in SHG promotion and lending.

Access Livelihoods Consulting India Private Limited, New Delhi

27, Hauz Khas Village, New Delhi-110016; Tel: 91-11-26566060/4101; Fax: 91-11-26564081/

29671; vsharma@careindia.org; <http://www.careindia-microfinance.org> DefaultDetail.asp? qstxt=52

Set up by CARE India, caters to the needs of microfinance and livelihoods sector in India; planning to impart consulting services to 100 MFIs by 2011.

Swanirvar, North 24 Parganas

(from Debraj Bhattacharya, Panchayat and Rural Development Department, Government of West Bengal, Kolkata)

Village and Post: Andharmanik, Block: Daduria, District: North 24 Parganas-743401, West Bengal; Tel: 91-3217-237446; swanirvar@vsnl.net; <http://www.swanirvarbengal.org/WhatWeDo.htm>

Rural development organisation providing financial and capacity building services to SHGs through loans raised from nationalised banks.

Pragathi Gramin Bank, Bellary

(from Smita Premchander, Sampark, Bangalore (response 1))

P.B. No. 32, Sanganakal Road, Gandhi Nagar, Bellary-583103, Karnataka; Tel: 08392-255010; pgbankho@sancharnet.in

State owned development bank aims to provide financial services to the rural poor, mainly micro-entrepreneurs, in agriculture and non-farm sectors and SHG lending.

Sampark, Bangalore

No. 120/A, First Floor, 17th Main, KHB Colony, 5th Block, 2nd Cross, Near Mamoor Masjid, above Apex Bank, Koramangala, Bangalore-560095; Tel: 91-80-25530196/21268; Fax: 91-80-25529557; sampark@sampark.org; http://www.sampark.org/main_projects.htm

Under its micro-credit and enterprise development activities, NGO forms SHGs and provides financial linkage with banks under SBLP.

CARE-Credit and Savings for Household Enterprises (CASHE), New Delhi

27, Hauz Khas Village, New Delhi-110016; Tel: 91-11-26566060/4101; Fax: 91-11-26564081/29671; vsharma@careindia.org; <http://www.careindia-microfinance.org>

CARE's largest microfinance initiative in India, provides technical and grant assistance to NGOs involved in SBLP in Andhra Pradesh, Orissa, West Bengal.

Association for Sustainable Community Development, Kancheepuram

(from K. Loganathan)

15, West Pillaiyar Koil Street, Karunguzhi Post, Madurantakam Taluk, Kancheepuram District-603303, Tamil Nadu; Tel: 91-044-275-67115; asscod@yahoo.co.in; <http://www.asscod.org/projects.htm>

Development organisation engaged in socio-economic empowerment of women through SHGs, which are linked with banks under SBLP.

(from Sachin Kumar, Research Associate)

Oriental Bank of Commerce, New Delhi

Harsha Bhawan, E- Block, Connaught Place, New Delhi-110001; Tel: 91-11-23417121/6691; Fax: 91-11-23415591; http://www.obcindia.com/knowus/knowus_aboutus.html

Under its Grameen project, Bank provides loans to SHGs in Dehradun (Uttarakhand) and Hanumangarh (Rajasthan) to meet consumption and production needs of the poor.

United Bank of India, Kolkata

16, Old Court House Street, Calcutta-700001; Tel: 91-33-2248-7470-75; Fax: 91-33-2248-5852/2248-6922; utbihoc@vsnl.com; <http://www.unitedbankofindia.com/agricultural-loan01.asp>

Government of India undertaking, through the united bhoomiheen kisan credit card, provides insurance linked production and consumption credit to SHGs.

Recommended Documentation

Microfinance in India: A State of the Sector Report, 2006

(from Rohit Raina, Access Development Services, Udaipur)

By Prabhu Ghate, a joint initiative of CARE and Ford Foundation, 2006

<http://microfinanceindia.org/Docs/Sector%20Report.pdf>

The report gives an overview of the progress made by SBLP and MFI model and limitations inherent in both the models.

(from Sachin Kumar, Research Associate)

Oriental Bank of Commerce offers Microfinance at 9 percent in Punjab

The Tribune, Chandigarh; November 5, 2006

<http://www.tribuneindia.com/2006/20061105/biz.htm#2>

Newspaper article discusses Oriental Bank of Commerce's strategy to enhance financial and client outreach in the rural areas through SHG lending.

Innovation in Product Design, Credit Delivery and Technology to Reach Small Farmers

By Y. S. P. Thorat, NABARD, Kolkata; November 11, 2005

http://www.nabard.org/whats/md_speech_111105.pdf

Speech highlighted innovative products, delivery channels and support services developed to provide rural entrepreneurs access to financial services.

Linking Banks and (Financial) SHGs in India – An Assessment

By Erhard W. Kroop and B. S. Suran, MicroCredit Innovations Department, NABARD, Mumbai; 2002

<http://www.nabard.org/roles/mcid/erhardkroop.pdf>

Study helps to review the progress made by SBLP over the last 10 years including impact of SBLP on lending process of formal banking system.

Recommended Portal and Information Base Market Research for Microfinance Toolkit

(from Sachin Kumar, Research Associate)

Toolkit developed by MicroSave, organised into folders having presentations and relevant documents, designed to identify customers' needs for microfinance.



Environment

Water Community



Poverty

Microfinance Community

Consolidated Reply

Query: Revolving Fund for Household WatSan Facilities – Experiences; Referrals

Compiled by Pankaj Kumar S. and Sumeeta Banerji, Resource Persons and Ramya Gopalan and Anjum Khalidi, Research Associates

Issue Date: 27 September, 2007

From Kulwant Singh, UN-HABITAT, New Delhi

Posted 28 August, 2007

Dear Members,

Under the Water for Asian Cities Programme, UN-HABITAT is working in four cities of Madhya Pradesh (Bhopal, Gwalior, Indore and Jabalpur) for improvement and expansion of urban water supply, sewerage and sanitation, water drainage and solid waste management.

UN-HABITAT has set up a revolving fund for financing small community managed water and sanitation initiatives in the project towns of Madhya Pradesh. A set of guidelines for the revolving fund, duly endorsed by the State Government of Madhya Pradesh, have been developed for this purpose. The revolving funds are so far working quite satisfactorily.

Under the programme, we have developed a Sanitation Fund managed by an NGO which gives loan money to households for construction of individual household toilets. The money is recovered in instalments and the fund utilised in a revolving manner so that more and more households can benefit. In another model, we facilitated piped water connections for individual household, where the capital investment was done by UN-HABITAT and the amount is being recovered from households through a monthly charge for the connection and the water charges. The recovered

money is put in a revolving fund for use by another neighbourhood. In Lao PDR, we are facilitating individual household loans for water connections as well as toilets. These pilot projects in India as well as in Lao PDR have so far been working successfully. There, however, is a keenness to scale up these.

We are now proposing to scale up the financing activities both for water and sanitation at the national and state levels. It is learnt that there are several such financing initiatives in the country for provision of water and sanitation services at the local level.

In the above context, I request members to kindly share with us the following:

- Experiences on the kind of models being used for financing household water and sanitation facilities for weaker sections in India and the innovations that have increased access of poorest to water and sanitation facilities.
- Suggestions on what not to do, and learnings about possible pitfalls that such programmes should avoid to ensure greater success.
- Names of institutions, organisations and programmes that have adopted a similar approach and that can support us in designing capacity building for the programme.

Your inputs will help us in evaluating our own experiences and enhancing the design of the scaled-up programme and would be deeply appreciated.

Responses were received, with thanks, from

1. K. Mahesh Kumar, Consultant, Bhopal
2. S. V. Anil Das, Asian Development Bank (ADB), New Delhi (Response 1; Response 2)
3. N. Jeyaseelan, Microfinance Consultant, Madurai
4. Ranjan Das, Lady Hardinge Medical College (LHMC), New Delhi
5. Kulwant Singh, UN-HABITAT, New Delhi (Response 1; Response 2)
6. Arunabha Majumder, All India Institute of Hygiene and Public Health, Kolkata
7. Asaithambi. T, DHAN Foundation, Madurai
8. N. Srinivasan, Rural Finance Consultant, Pune
9. Allice Morris, Unnati, Ahmedabad
10. S. Damodaran, WaterPartners International India Liaison Office, Tiruchirappalli
11. V. Kurian Baby, Civil Lines, Thrissur
12. M. V. Raman, Java Softech Pvt. Ltd., Hyderabad

Further contributions are welcome!

Summary of Responses

In the context of the proposed scaling up of UN Habitat's Water for Asian Cities Programme, the query sought experiences and models in financing small household level water and sanitation (watsan) facilities through revolving funds. In response, members provided examples of such models from different states and suggested points on designing such a programme.

Respondents shared various experiences in building financing models from various parts of the country. An AusAid programme in Gangtok-Shillong area provided 70 percent of the cost as a one-time grant, with community based organisations (CBOs) putting in the rest and taking up the responsibility for planning and implementing the watsan facilities, while the Indian bank in Madurai sanctioned loans to an SHG for constructing RWH structures. Members pointed out that bank loans with subsidies (such as under the Central Sanitation Programme) have been popular as these make the loans accessible to poorest. In another experience from West

Bengal, a revolving fund was introduced to give loans to the poorest households to build low cost toilets to

be paid back in 25 months, while in Maharashtra, RRBs provided loans for construction of toilets. Discussants also described BAIIF's experience in promoting low cost prefabricated toilets, which were easy to install and reduced costs considerably and another project in Lao PDR in this background.

Revolving fund models mentioned by discussants included Gramalaya, an NGO in Tamil Nadu, which provides loans to SHG members for household water connections and toilets with underground drainage facilities at 18 percent interest. The agency has achieved 100 percent repayment and has now registered a separate MFI for this purpose. In its campaign called War against Open Defecation, the agency is also providing loans through Primary Agriculture Cooperative Banks for construction of low cost toilets. In this context, respondents also mentioned the opportunity provided by the Community Participation Fund (CPF) initiated by the Ministry of Urban Development, which would cover grant funding up to 10 lakh for small community projects to CBOs. The Fund is available in 63 cities covered by the Jawaharlal Nehru Urban Renewal Mission and the community is to contribute 10 percent of total cost. Respondents also shared the learnings of a revolving fund project in Madhya Pradesh for watsan during the discussion.

Discussing the constraints in adoption of revolving funds by the poor, discussants pointed out that loans for watsan facilities saved time for the poorest households, and increased time available for economic activities, thus increasing their ability to pay instalments. However, they pointed out that slum-dwellers living in rented accommodation or prone to frequent migration may be reluctant to invest in toilets. Similarly, poor people who lack ownership over lands on which their houses are built may also not be interested in taking such loans. Absence of a steady revenue stream for repayment of loans from revolving funds could be another constraint for the poorest, felt members.

Discussing the systemic constraints to scaling up watsan revolving funds, members pointed out that in general, large hidden subsidies are built into large water and sanitation programmes, which benefit the richer affluent sections, while approaches like revolving funds are designed for the poorer sections. The Government's promise to deliver such municipal infrastructure at no cost hampers the flow of private investment into building water and

sanitation infrastructure, which by nature is a high demand area, and could easily attract such viable infrastructure. However, since the Government's promise of delivery of efficient and low cost infrastructure is plagued with poor quality, quantity and reliability, ultimately citizens end up investing private capital to meet the gaps. In this process, the poor end up paying more than the rich pay for water and sanitation services.

In the above context, respondents gave a number of suggestions. They emphasised that, in fact, a system of revolving funds for financing water and sanitation infrastructure needs to be evolved for affluent sections, and the money saved could be utilised in providing subsidised access to the services for the poorest sections. In case this could not be done, revolving funds could be scaled up, provided the thrust of the fund was kept on community assets and if major Government and donor funded programmes have a window to encourage venture funds.

Additionally, they suggested the following for promoting revolving funds:

- Designing customised individual loan products for the UN Habitat programme, such as the special product that Indian Bank designed for the Sakthi project.
- Undertaking community survey and preparing slum profiles to understand factors for reluctance against use of loans for sanitation.
- Using public-private models for promoting revolving funds, as done by a company promoting water filters through SHGs.
- Increasing awareness of rural women, schoolchildren about sanitation and involving youth as advisors and technicians.

The discussion listed experiments in financing watsan facilities for the poorest and gave suggestions on how such a programme could be designed. Members stressed that notwithstanding hidden subsidies for the affluent, revolving funds could be a sound mechanism to make watsan facilities accessible for the poorest at a large scale.

Comparative Experiences **Gangtok-Shillong**

Small Grants Scheme in Urban Water Supply and Sanitation

(from K. Mahesh Kumar, Consultant, Bhopal)

A fund component within this AusAID funded project provides 70 percent capital cost as a one-time grant. The balance 30 percent is contributions from the community and there are no loans. The whole process of planning, implementation and future management lies with community groups or CBOs. This method is used successfully in almost 30 projects in Gangtok by ECOSS.

Tamil Nadu

Water Credit provided by Banks as part of Economic Activities, Usilampatti, Madurai

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

At Indian Bank's Special Unit for Microfinance (IBSUM), Usilampatti branch, 50 members received loans from Rs. 2000 to Rs. 3000 for constructing household rain water harvesting structures. These loans were sanctioned to SHG members and delivered as a combined loan along with the enterprise loan. This type of water credit is combined with loans for economic activities and thus fulfills the RBI permits of lending to SHGs for both consumption and production purposes.

Water Credit through SHGs for Toilets and Water Connections, Tiruchirappalli District

(from S. Damodaran, WaterPartners International India Liaison Office, Tiruchirappalli)

Gramalaya with WaterPartners International provided loan amount of Rs.45,00,000 to 490 borrowers in Tiruchirappalli City Corporation for household water connections and toilet facilities. Loans are provided through women SHGs ranging from Rs.3,000 to Rs.10,000 at 18 percent rate of interest diminishing balance with 18-24 months repayment period. 100 percent repayment and more demands led Gramalaya to now form a separate MFI for this WaterCredit project.

West Bengal

Revolving Loans to Promote Sanitation in Villages, Hoogli District

(from Arunabha Majumder, All India Institute of Hygiene and Public Health (AIIHPH), Kolkata)

AIIHPH in one of their projects introduced a revolving fund to promote sanitation in the villages. Through a demand-driven approach, people were made aware and motivated to have household toilets, constructed at affordable costs and various ranges. The revolving loan was Rs 500/- per family, to be paid back in 25 months without interest. Experience

shows repayment rate satisfactory in first year but irregular in subsequent years.

Madhya Pradesh Community managed Water Supply Scheme

(from Kulwant Singh, UN-HABITAT, New Delhi; response 1; response 2)

UN-HABITAT created a Revolving Water Fund (RWF) implemented as a pilot demonstration project. The Municipal Corporation manages it in Gwalior and Jabalpur and likewise the District Urban Development Authority (DUDA) in Indore. Communities receive a loan from the fund to meet infrastructure development costs, which is paid back in instalments matching their paying capacity which is replicated and scaled up by DUDA/MC, thus demonstrating a pro-poor approach.

Orissa Innovation towards Ensuring Social Inclusion

(from Ramya Gopalan, Research Associate)

When poor families find it difficult, women “inclusion ambassadors” persuade the better-off to contribute more. The money is invested and interest earned thereof funds watsan schemes which permits communities to manage resources. Communities bear a third of capital cost, Government bears half and Gram Vikas provides the rest, average Rs. 4000 per family. The community also attempts to tap local development funds of local elected representatives.

All India Community Participation Fund (CPF)

(from Asaithambi. T, DHAN Foundation, Madurai and S. V. Anil Das, Asian Development Bank (ADB), New Delhi; response 1; response 2)

To tackle water and sanitation problems in most of the slums irrespective of the city, the CPF established by the ministry provides funds to local NGOs and CBOs based on issues in a particular slum in an effort to enrich the people’s participation. CBOs must prepare the proposal and route it through the corporation to ministry. The project cost for each proposal is Rs. 10 Lakh, the community also has to contribute 5 to 10 percent additionally.

International Lao PDR

Mekong Water and Sanitation Initiative (MEKWATSAN), Luang Prabang

(from Kulwant Singh, UN-HABITAT, New Delhi; response 1; response 2)

UN-HABITAT took up this community-based water supply and sanitation demonstration project in the secondary town of Xieng Nguen. Total cost of the project was US\$ 450,000 of which UN-HABITAT provided US\$ 250,000, local community contributed US\$ 100,000 and the provincial water supply enterprise further contributed US\$ 100,000. The project completed in December 2006, demonstrating how communities can mobilise and work effectively with local authorities.

From Ramya Gopalan, Research Associate

Mali

Revolving Credit Scheme for Water Transport, Nafadji

The challenge was to facilitate households’ access to appropriate utensils for water transport. The WaterAid field team did a survey and found that women supported a revolving credit scheme, where they could access funds to buy water transport utensils. Thus, formed the first group of 170 women with an initial budget of 255000 CFA Francs provided by the water point committee. Each woman received a bucket with a lid paid for in four weekly installments.

Côte d’Ivoire

NGO and Public Water Utility Partner on a Micro Finance Scheme, Abidjan

In three neighbourhoods CREPA, an NGO, and SODECI, public water utility, to enable poor households connect to the network. With grant funding from UNDP, CREPA pre-financed the connection fees as a loan for all 300 households and provided a capacity-building programme to mobilise household savings to repay loan and ongoing water bills. The micro loans were paid back in 17 months and this example is now being replicated in Ouagadougou.

Burkina Faso

Saving Credit Scheme for Domestic Waste Management, Wogodogo, Ouagadougou

The credit provided by a women’s association working on sanitation financed the initial 70 percent towards start-up. Initially, 28 households benefited from loans to construct excreta/waste water infrastructure such as VIP latrines, drainage and soak pits for domestic waste treatment. But only five households reimbursed the credit. However, participatory approaches took place

to improve their attitude and self confidence and now the reimbursement rate is more than 80 percent.

Related Resources

Recommended Documentation

(from Kulwant Singh, UN-HABITAT, New Delhi (response 1; response 2))

Guidelines on Revolving Funds for Community managed Water Supply Schemes and Construction of Household Toilets in Urban Slums in Madhya Pradesh, India

Paper; Water for Asian Cities Programme, Madhya Pradesh; UN-HABITAT and Government of Madhya Pradesh; November, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/res28080702.pdf>

Guidelines for projects at the household level supported through revolving funds used mainly for financing water and sanitation related activities at the household level.

Guidelines on Revolving Funds for Constructing Latrines and Water Connections in Luang Prabang, Lao PDR

Paper; UN-HABITAT and Mekong Region Water and Sanitation (MEK-WATSAN) Initiative; November, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/res28080701.pdf>

Guidelines for revolving funds to enable provision of water and sanitation services to reach the urban poor and make them both affordable and acceptable.

(from Ramya Gopalan, Research Associate)

Flush with Loans: Micro Credit for Rural Sanitation

Article; Jalvaani; Vol. 2 No 3; July-September, 1999
Details a path breaking low cost, low subsidy credit scheme for rural sanitation launched by WaterAid in Tamil Nadu

Linking Credit to Water, Sanitation and Hygiene – The Nafadji Revolving Credit System

News Article; by Adama Sanogo; WaterAid
Available at <http://www.wateraid.org/mali/news/4267.asp>

Details the revolving credit scheme aimed at providing poor women in Nafadji with the financial means to purchase appropriate buckets to transport drinking water.

Microfinance for Water Supply Services

Fact Sheet; by Catarina Fonseca; WELL Resource Centre for Water, Sanitation and Environmental Health; March, 2006

Available at <http://www.lboro.ac.uk/well/resources/fact-sheets/fact-sheets-htm/Micro%20for%20water.htm>

Explores examples of microfinance for the water sector, citing case studies from developing countries.

Local Financing Mechanisms for Water Supply

Briefing Note; by Julie Fisher; WEDC; WELL Resource Centre for Water, Sanitation and Environmental Health

Available at <http://www.lboro.ac.uk/well/resources/Publications/Briefing%20Notes/BN16%20Local%20financing.htm>

Supports delivery of pro-poor watsan interventions through viable, innovative financing mechanisms, and strategies to promote these at regional and national level.

A Bottom-Up Approach to Sanitation

Article; by Darryl D'Monte; InfoChange News and Features; October 2006

Available at <http://www.infochangeindia.org/features389.jsp>

Discusses problems of sanitation community projects, lack of funds and lack of conviction amongst people's understanding of sanitation needs, and highlights Orissa's innovation.

Financial Services and Environmental Health: Household Credit for Water and Sanitation

Paper; by Robert C.G. Varley; EHP Applied Study 2; USAID; January 1995

Available at <http://www.gdrc.org/icm/environ/usaid.html>

Advocates the use of microfinance institutions as an integral part of financing strategies for increasing water supply and sanitation coverage in urban and peri-urban areas.

(from Anjum Khalidi, Research Associate)

Microfinance for Sanitation

Fact Sheet; by Darren Saywell; WELL Resource Centre for Water, Sanitation and Environmental Health; 2006

Available at <http://www.lboro.ac.uk/well/resources/fact-sheets/fact-sheets-htm/mcfs.htm>

Examines progress of developing microfinance mechanisms for sanitation initiatives, identifies key factors in failures and successes of initiatives using global examples.

Financing Water using Partial Loan Guarantees

Powerpoint Presentation; by Ms. Jacqueline E. Schaferand and Mr. John Wasielewski; U.S. Agency for International Development (USAID)

Available at: <http://www.oecd.org/dataoecd/42/32/21878332.ppt#311,1,U.S.%20Agency%20For%20International%20Development>

Highlights USAID's approach to water finance; Water Revolving Funds (WRFs), and details the activities of its watsan projects in Karnataka and Tamil Nadu.

Financing Small Water Supply and Sanitation Service Providers – Exploring the Microfinance Option in Sub-Saharan Africa

Paper; by Mr. M. Mehta and K. Virjee; WSP - Water and Sanitation Programme of UNDP and the World Bank; December, 2003

Available at http://microfinancegateway.org/files/21838_WSP.pdf

Discusses possible role of microfinance in financing small water supply and sanitation service providers; lists key aspects to be addressed by the government and civil society.

Recommended Organisations and Programmes

From K. Mahesh Kumar, Consultant, Bhopal

Gangtok-Shillong and South Asia Regional, Water and Sanitation Programme, Gangtok

<http://www.developmentgateway.com.au/jahia/Jahia/pid/2357>

This programme funded by AusAID aims to improve water supply, sanitation and solid waste services in two cities in the north-eastern region of India using a small grants scheme.

Ecotourism and Conservation Society of Sikkim (ECOSS), Sikkim

State Archives Annexe, Zero Point, Gangtok-737101, Sikkim; Tel: +91-3592-228211/225182/229154; Fax: +91-3592-229183; ecoss@sikkiminfo.net; <http://www.sikkiminfo.net/ecoss/>

Implemented almost 30 projects in Gangtok as a partner in the AusAID funded water and sanitation programme through one time grants and community contributions.

(from N. Jeyaseelan, Microfinance Consultant, Madurai and S. Damodaran, WaterPartners International India Liaison Office, Tiruchirappalli)

WaterCredit Initiative, Tamil Nadu

D-56, 6th Cross (NEE), Thillainagar, Tiruchirappalli-620018; Tel: +91-431-4023516; <http://www.water.org/waterpartners.aspx?pgID=928>

A loan programme of WaterCredit International, which works on the idea of building community-based water supply projects through a combination of grants and loans.

WaterPartners International, Tamil Nadu

D-56, 6th Cross (NEE), Thillainagar, Tiruchirappalli-620018; Tel: +91-431-4023516; <http://www.water.org/>

Provides safe drinking water and sanitation to people in developing countries, using micro finance initiatives in partnership with donors and local communities.

All India Institute of Hygiene and Public Health, West Bengal (from Arunabha Majumder, All India Institute of Hygiene and Public Health, Kolkata)

Department of Sanitary Engineering and Environmental Sanitation, 110 Chittaranjan Avenue, Calcutta-700073; Tel: +91-33-315286/315288; <http://mohfw.nic.in/kk/95/ib/95ib0y01.htm>

Undertook a UNICEF funded project on integrated and ecologically balanced water and environmental sanitation, introducing a revolving loan for sanitation promotion in villages.

Gramalaya, Tamil Nadu

(from S. Damodaran, WaterPartners International India Liaison Office, Tiruchirappalli)

12, 4th Cross, Thillainagar West, Tiruchirappalli-620018; Tel: +91-9443161263; Fax: +91-431-4021563/4220263; gramalaya@airtelbroadband.in; <http://gramalaya.org/>; Contact J. Geetha, Executive Director

Formed the Gramalaya Urban and Rural Development Initiatives and Network (GUARDIAN) which will lend money for watsan facilities in Tiruchirappalli and sub-urban areas.

HUL Project Shakti, Maharashtra

(from N. Jeyaseelan, Microfinance Consultant, Madurai and M.V. Raman, Java Softech Pvt. Ltd., Hyderabad)

Hindustan Unilever Limited, Hindustan Unilever House, 165/166, Backbay Reclamation, Mumbai -400020; Tel: +91-22-39830000; Fax: +91-22-22871970;

<http://www.hllshakti.com/sbcms/temp15.asp?pid=46802261>

A rural initiative involving SHGs/NGOs/Govt. Agencies in 14 States to promote the concept of micro enterprise/health & hygiene by rural communicators called Shakti Vahinis.

Indian Bank's Special Unit for Microfinance (IBSUM), Tamil Nadu

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

P.B. No. 1384, 66, Rajaji Salai, Chennai-600001; Tel: +91-44-25233231/25231253/25231254; Fax: +91-44-25231278; indianbank@vsnl.com; <http://www.indianbank.in/>

The Usilampatti branch provides loans to SHG members for constructing household rain water harvesting structures delivered as a combined loan along with the enterprise loan.

Community Participation Fund, New Delhi

(from S. V. Anil Das, Asian Development Bank (ADB), New Delhi; response 1, response 2_and Asaithambi.T, DHAN Foundation, Madurai)

Ministry of Urban Development, Nirman Bhawan, Maulana Azad Road, New Delhi-110011; Tel: +91-11-23063495; Fax: +91-11-23061446; <http://www.urbanindia.nic.in>

Established to fund community projects with financial contributions from the community for small projects in local areas such as water supply/sanitation for urban slums.

Water for Asian Cities Programme, UN-HABITAT, New Delhi

(from Kulwant Singh, UN-HABITAT, New Delhi; response 1, response 2)

Regional Office EP 16/17, Chandragupta Marg, Chanakyapuri New Delhi - 110 021; Tel: +91-11-42225000; <http://www.unwac.org/>

Undertakes working in watsan related pilot projects supported at the household level through revolving funds used in India, Nepal, Lao PDR, Vietnam, PR China and Indonesia.

Philippines Water Revolving Fund (PWRF), Philippines

(from Anjum Khalidi, Research Associate)

7600 Wisconsin Avenue Suite 200, Bethesda, MD-20814, USA; Tel: (301) 771-7600; Fax: (301) 771-7777; http://www.dai.com/work/project_detail.php?pid=135

Project focuses on mobilising financing for watsan infrastructure, expanding the number of watsan projects and strengthening water and financial policies and infrastructure.

Recommended Portals and Information Bases Financing and Cost Recovery, IRC International Water and Sanitation Centre, The Netherlands

(from Ramya Gopalan, Research Associate)
<http://www.irc.nl/page/113>

Focuses on realistic policies, operational strategies or plans for cost recovery and financing for sustainable water supply services, particularly for the poor.

Recommended Tools and Technologies Pureit

(from M.V. Raman, Java Softech Pvt. Ltd., Hyderabad)

Water Filter; owned by Hindustan Unilever Limited (HUL), All India
Available at <http://hllpureit.com/htmls/about.html>;
pureit.hul@unilever.com

This water filter is an example of a technology at the household level which can be procured easily by SHG members through HUL's internal loan options.



Consolidated Reply

Query: Housing Microfinance for Poor–Experience and Examples

Compiled by Navin Anand, Resource Person and Monika Khanna, Research Associate

Issue Date: 29 September, 2008

From G. Milroy Paul, Habitat for Humanity India, Chennai

Posted 28 August, 2008

I work for Habitat for Humanity India (HFH) at Chennai. HFH India began its operations in 1983 in Khammam district of Andhra Pradesh. HFH India has assisted tens of thousands of families since its inception, in providing decent shelters to the poor. For more details, please visit <http://www.habitatindia.in/aboutus.html>. HFH International was selected in a competitive process to be the coordinating and administrative agency (now referred to as the Secretariat) for the Consultative Group to Assist the Poor (CGAP) a working group on housing microfinance for the poor.

http://www.habitat.org/housing_finance/cgap_working_group/default.aspx

HFH India uses an innovative concept of 'Save & Build' housing in order to reach the communities in need. In this model, home partner (beneficiary), usually working in groups and often led by women, saves one-third of the cost of a house, with a non-governmental organisation or corporate partner contributing one-third and HFH India, lending the remaining one-third. To know more about housing microfinance (HMF) and habitat's initiatives,.

In recent years, housing microfinance has emerged as a discrete area of practice. At the national level, RBI had set up National Housing Bank to promote and regulate the housing finance in the country. There is a plethora of housing schemes launched by the banks and other housing financial institutions. HMF loan products of different banks and agencies cover construction of new houses as well as home improvement or repairs/renovation.

Regarding the need of housing for poor, the report of "11th Five Year Plan (2007-2012) Working Group on Urban Housing with focus on Slums" clearly mentions that housing shortage as of 2007 is estimated to be around 24.71 million. Most of the housing shortage is for economically weaker section and low income group.

http://planningcommission.nic.in/aboutus/committee/wrkgrp11/wg11_housing.pdf. Similarly, the State of World Population Report 2007 reveals the fact that in India, the urban population is expected to become 576 million in 2030 from the current 328 million. With this rapid urbanisation, one of the biggest challenges will be providing affordable housing to city dwellers, especially the poor. It is in this context that we would like members of microfinance community to share:

- Issues and challenges in HMF, from the perspective of MFIs, wholesale funders and other stakeholders.
- Experiments and experiences of existing HMF models, programmes/schemes and projects of MFIs, banks and Government (including Government schemes which have housing as one component and the beneficiary requires microfinance service to give his or her contribution).
- Existing and possible value delivery chains* including linkages for housing microfinance which can promote the objective of providing complete solutions of housing for poor.

*Value delivery chain in the context of microfinance for housing refers to all the activities involved in the delivery and management of housing loan for poor. There can be innovative linkages and outsourcing of the activities, for example, linking of specialised architectural and construction companies with banks and MFIs.

The contributions of the members will not only help us to formulate innovative schemes of microfinance for housing but will also facilitate in the formation of strategies at different levels and in modification of the schemes of the Government, banks and MFIs.

Responses were received, with thanks, from

1. P. Uday Shankar, Microfinance Consultant and Trainer, Coimbatore (Response 1; Response 2)
2. Bhuvan Chand Joshi, Grameen Vikas Samiti, Pithoragarh
3. N. Suresh Swami, SPANDANA, Bangalore
4. Sanjay Bhargava, EKO India Financial Services Private Limited, New Delhi
5. A. P. Dubey, Institute of Cooperative Management, Dehradun
6. Cheryl Young (IFMR Trust), Minakshi Ramji and Stuti Tripathi, CMF, Chennai
7. Islam Hussain, PAHAL, Nainital
8. G. K. Agrawal, Rural and Microfinance Consultant, Mumbai
9. N. Srinivasan, Consultant, Pune
10. Annapoorna, Consultant, Hyderabad
11. Rahul Rawat, Self Help India, Dehradun
12. S. Sitaram, Ritnand Balved Education Foundation, Noida
13. Brij Mohan, ACCESS Development Services, Gurgaon
14. V. Sarat Patnaik, A. P. Grameen Vikas Bank, Visakhapatnam
15. G. Bhaskarara Rao, Andhra Pradesh Mahila Abhivruddhi Society, Hyderabad
16. Girija Srinivasan, Consultant, Pune*
17. Rohit Raina, ICICI Bank, Mumbai *

*Offline Contributions

Further contributions are welcome!

Summary of Responses

Analysing the issue of HMF, members felt that given the changing scenario, housing must be understood not only as a need, but also as commodity, shelter, investment, and an infrastructure for livelihoods, and thus housing loans need to be viewed as 'productive loans.' Discussing the topic in detail, respondents outlined challenges related to providing HMF identified sources for HMF, suggested ways to provide HMF, and shared experiences.

Discussants listed specific issues they felt were major challenges in providing HMF:

- Housing Finance Institutions (HFIs) are not mainstreamed, and therefore economically weaker sections are covered up to limited extent.
- HMF is perceived as consumption loan, therefore financial institutions are often unwilling to lend money for this purpose.
- Low-income households, in urban and rural areas, seldom have clear, legal land titles, thus banks that lend to MFIs for housing loans often do not accept "para-legal documents" as collateral.
- Government subsidy programmes/grants are creating a culture of expectation and non-repayment.
- HMF loans are larger and longer than standard micro-enterprise loans, and most MFIs have yet to create a dedicated line of funding for housing with appropriate interest rates.
- Majority of government and MFI schemes cover loans for the construction, not for purchasing land.
- Difficulty in identifying low-cost housing designs and construction material.

Exploring ways MFIs and other organisations can effectively provide HMF, members mentioned several reports on HMF, including a study on housing issues of poor in *Ghana* that showed that a significant opportunity exists for government and the private financial sector to collaborate to ensure that low-income households have sustained access to housing microfinance. Another report by the *Swedish International Development Agency (SIDA)* highlighted three distinct methods for channeling HMF resources to qualifying households – supporting second-tier (Apex) institutions for disbursement of HMF funds to clients, directly financing first-tier institutions, and establishing trust funds to finance first-tier or second-tier institutions. According to a case study, a multinational cement manufacturing company in *Mexico*, trained local workers to build their own houses and provided financial assistance in stages to build the houses so that the beneficiaries utilise the amount only for housing.

Members also shared the outcome of a 2003 survey of roughly 300 rural HFI clients in Tamil Nadu and Andhra Pradesh, which showed that housing finance companies use the services of MFIs to market their housing products and SHGs can be a good source for giving a "bridge loan." Another state level study examined a federation of SHGs in Andhra Pradesh

and revealed that many beneficiaries require bridge loans because of the disequilibrium between the unit cost envisaged and actual construction expenditures. Additionally, discussants referenced various publications on microfinance technical support and training institutions.

Along with listing reports, respondents made several specific recommendations for addressing the challenges involved with HMF:

- MFIs provide housing loans on behalf of other institutions that have large, long-term resources (i.e. National Housing Bank (NHB), NABARD, Small Industries Development Bank of India, Housing and Urban Development Corporation Limited, and Housing Development Finance Corporation Limited).
- Have large, national level organisations involved in HMF provide capacity building for NGO staff.
- MFIs partner with banks and housing finance companies to provide correspondent services for HMF or design tailor-made products catering to the specific needs of members in their areas.
- Establish an international liquidity facility to make discounted HMF loans available to the MFIs.
- Promote partnerships along the value chain between housing and construction NGOs, governments, and material suppliers to provide technical assistance and defray costs related to inputs.
- Free government schemes from procedural hassles and revise the loan size.
- MFIs, borrowing from HFC or a bank for on-lending, insist on a moratorium period of one year.
- Enable CBOs (i.e. SHG federations) to offer housing loan to their members.
- Encourage Urban Local Bodies/State Urban Development Agencies to give the poor, land at low prices.
- Explore the possibilities of creating Public Private Community Partnerships (PPCP) for HMF.
- Have MFIs adopt a costing mechanism for their housing products to keep a tag on the margins and avoid any possible adverse effects due to an asset liability mismatch or unexpected raise in inflation.
- Encourage banks to be more flexible in scheduling the repayments for the poor.

Respondents also highlighted the role of *NHB*, which issues directions to HFIs to ensure sound growth, makes loans and advances, renders financial assistance to scheduled banks, HFIs, and authorities established by or under any Central, State or Provincial Act, and engages in slum improvement activities.

Sharing best practices and experiences in HMF, discussants noted the work by a key national level *Section 25 Company* engaged in providing HMF, which highlighted how SHGs can be used as financial intermediaries for providing housing loans and managing recovery of loans. Members pointed out that previously, MFIs used SHGs for selecting beneficiaries from their members and delivering housing loans, but now MFIs have started doing technical and economic feasibility assessment on their own due to the technicalities involved in undertaking such appraisal, and leave the responsibility for doing the basic selection, recommending customers and recovering payments with SHGs.

Members also mentioned that a national level federation of housing cooperatives is supporting primary housing cooperatives by providing guidance and technical support, and highlighted the success of primary housing cooperatives in Maharashtra offering the poor land at subsidised rates.

Along with discussing financial interventions for housing, respondents noted the importance of non-financial interventions by MFIs, including:

- Training on cost-effective building techniques
- Taking up housing loan customers under the purview of mandatory insurance coverage against accidental death of either wife or husband
- Guiding women on how to approach government authorities for issues related to land and construction of house
- Educating borrowers on the importance of sanitation.

Members quoted an example of a Coimbatore based developer who provides land for the poor at low cost and on installments to propagate the idea to MFIs and developers.

Finally, members noted that inadequate loan amounts have serious consequences. They pointed out that as a result of getting insufficient loans, borrowers often resort to borrowing funds at a higher interest rate from moneylenders to supplement the housing loan, which in turn puts them at high risk of defaulting on their bank or MFI loan. They also advised MFIs create customised housing products as per the needs and repayment capacities of the poor, develop collaborations with formal financial institutions, do value chain assessment for designing and creating products, and use SHGs as intermediaries for housing loans.

Comparative Experiences

Karnataka

Housing Solution for Poor

(from Girija Srinivasan, Consultant, Pune)*

Sri Kshetra Dharmasthala Rural Development Project offers long term (up to 10 years) housing loan product of (up to Rs. 1 lakh) with weekly installments at 12 percent, which makes it easy to repay the installments. The key factor for the success of the project is that the MFI is able to raise long term funds from banks at reasonable interest. It has assisted 1, 09,318 families for house construction, repair, renovation and electrification.

Andhra Pradesh

Community Led Infrastructure Financing Facility (CLIFF),

(from Cheryl Young (IFMR), Minakshi Ramji (CMF) and Stuti Tripathi (CMF), Chennai)

DFID contributed £6.8 million for the pilot programme. CLIFF, a component of the programme is initially being implemented as a development and demonstration pilot project in India. Funds from CLIFF are now being used as guarantee or as “bridge loans.” By December 2004, CLIFF had financed nine community-led housing projects benefiting more than 2,700 families, and two sanitation programmes benefiting over 215,000 families.

Uttarakhand

Workshed cum Housing for Weavers

(from Bhuvan Chand Joshi, Grameen Vikas Samiti, Pithoragarh)

The Workshed Cum Housing Scheme of Development Commissioner (Handlooms) was focussed towards handloom weavers. Due to savings in SHGs, women weavers were able to pay their contributions and got financial assistance for constructing worksheds cum houses which provided them shelter to live, store raw materials and undertake weaving. It solved problems faced by them in rainy seasons, enhanced their capacities to produce more and thereby increase incomes.

Gujarat

Housing Microfinance for Workers Employed in Informal Sector

(from Monika Khanna, Research Associate)

Self Employed Women’s Association (SEWA), a Gujarat-based registered trade union was established in 1972. There was an unmet demand of the poor from low-income households employed in the informal sector. SEWA Bank is one of the institutions offering housing finance to poor people in Gujarat. Up to August 1998, SEWA Bank has disbursed a total of Rs.152 million in housing loans to 12,015 women, out of total loans of Rs.350 million to more than 25,000 women.

International Experiences

Egypt

Titled Ownership for Poor

(from P. Uday Shankar, Microfinance Consultant and Trainer, Coimbatore; response 2)

Ismailiyya Development Projects channelled public housing subsidies towards local initiative and self-help activity. The initial phase required government donation of the settlement land to the project. A grant of 1,00,000 Pounds Sterling from the British government provided the initial capital; later revenue of the project reached almost 3,500,000 Egyptian pounds. This has been used to develop infrastructure and provide loans to the low-income inhabitants to buy plots. By 1986, 90,000 people had been housed in the two settlements.

(from Monika Khanna, Research Associate)

Thailand

Urban Development Programme Results in Housing Opportunities and Poverty Reduction

An urban poverty reduction programme - UCDO used the loan fund plus a group of fieldworkers to support the establishment of community-managed savings and loan groups. These community groups are offered loan finance to undertake a range of activities related to land acquisition, housing and neighbourhood improvement and income generation. By January 2002, UCDO (through a special urban poor loan fund) had given loans for housing or income generation to 53,777 households in 826 communities.

Bangladesh

Housing Loans for Poor

The poor were not able to take loans from formal institutions due to lack of collaterals. In 1984, the Grameen Bank introduced housing loans to its members. The aim of the programme was to make funds available to members in good standing for building new houses or rehabilitating their old ones. The Bank disbursed 317 housing loans in its first year

and by May 1999 had given out 506,680 housing loans. The average repayment rate on these loans was 98 percent.

Related Resources

Recommended Documentation

(from A.P. Dubey, Institute of Cooperative Management, Dehradun)

Housing Microfinance – Policy Recommendations

Paper; by Frank Daphnis and Ingrid Faulhaber; Swedish International Development Cooperation Agency (SIDA); October 2004

Available at http://www.sida.se/sida/jsp/sida.jsp?d=118&a=3322&language=en_US

Reviews SIDA's housing microfinance programmes in Central America and provides policy recommendations for SIDA's housing microfinance programmes

Assessment of Housing Sector in Ghana

Report; by CHF International; December 2004.

Available at http://chfinternational.org/files/1428_file_Ghana_Housing_Report.pdf

Examines trends and risks of providing microfinance for housing, recommends strategies to the Government of Ghana to meet the critical challenge of affordable housing.

(from Cheryl Young (IFMR), Minakshi Ramji (CMF) and Stuti Tripathi (CMF), Chennai)

Low Income Housing – Challenges and Opportunities for Microfinance

Report; by Aparna Krishnan, Minakshi Ramji and Yusuke Taishi; Centre for Microfinance at Institute for Financial Management and Research (IFMR); Chennai

Available at https://www.habitat.org/housing_finance/pdf/low_income_housing_in_india.pdf

Explores best practices and models used by IFMR, to provide housing finance products, with particular emphasis on southern India.

Housing Microfinance – Designing a Product for Rural Poor

Paper; by Cheryl Young; Institute for Financial Management (Centre for Microfinance); November 2007

Available at http://ifmr.ac.in/cmfp/publications/wp/2007/19_young-housingmicrofinance.pdf

Outlines a demand assessment and product considerations for an organisation in Andhra Pradesh seeking to provide a housing microfinance product.

National Housing Bank to Disburse 500 Crore through Microfinance

(from Rahul Rawat, Self Help India, Dehradun)

Business Standard, 28 September 2008

Available at <http://www.business-standard.com/india/storypage.php?tp=on&autono=46404>

Article shares the announcement by NHB to disburse 500 crore in a year through microfinance to one lakh borrowers.

The Fortune at the Bottom of the Pyramid

(from Sanjay Bhargava, Eko India Financial Services Private Limited, New Delhi)

Book; by C.K Prahalad; Wharton School Publishing Paperbacks; 27 January, 2006

Available at http://www.amazon.com/s/ref=nb_ss_gw?url=search-alias%3Daps&field-keywords=Fortune+at+Bottom+of+Pyramids&x=0&y=0

Shares case studies of companies helping millions of the world's poorest people escape poverty.

(from Monika Khanna, Research Associate)

Shelter Finance for the Poor

Document; by Kimberly Tilock, Frank Daphnis, Ingrid Fulhauber and Mathew Chandy, Cities Alliance; 2002

Available at <http://www.microfinancegateway.org/content/article/detail/3741>

Examines SEWA Bank's operations in Ahmedabad, Gujarat; analyses the housing microfinance loan product of SEWA at length.

Making Development Budgets Work Better: Housing Loans and Poverty Reduction in Thailand

Article; by Boonyabanha S; Kerr T; Practical Action Publishing; March 2003

Available at: <http://www.ingentaconnect.com/content/itpub/sedv/2003/00000014/00000001/art00006>

Interview with the director of an urban poverty reduction programme and also a short introduction to the programme, including its strategies and activities (i.e. housing loans).

Recommended Organisations and Programmes

(from Uday P. Shankar, Microfinance Consultant and Trainer, Coimbatore)

Indian Association for Savings and Credit (IASC), Madurai

205, Chinnasamy Naidu Road, New Siddhapudur, Coimbatore-641044, Tamil Nadu; Tel: 91-422-

5388867/9867; Fax: 91-422-5388867 admin@iasc.in; http://www.iasc.in/products_services.html

Section 25 Company providing flexible and diversified loans to SHGs and individuals in rural and urban areas under three broad types – housing, economic and personal loans.

Housing Development Finance Corporation Limited (HDFC), Mumbai

Ramon House, 169, Backbay Reclamation, H T Parekh Marg, Churchgate, Mumbai-400 020, Maharashtra; Tel: 91 022 66316000; Fax: 91 022 22048834; <http://www.hdfcbank.com>

Private Indian bank promotes home ownership and provides home loans and deposit products, property related services and training facility.

Housing and Urban Development Corporation (HUDCO), New Delhi

(from Bhuvan Chand Joshi, Grameen Vikas Samiti, Pithoragarh)

HUDCO Bhawan, Core-7A, India Habitat Centre, Lodhi Road, New Delhi-110003; Tel: 91-11- 24649610-23; Fax: 91-11-24625308 hudco@hudco.org; <http://www.hudco.org/ophigh1.htm>

Financial institution that assists agencies and authorities in upgrading urban housing conditions especially for economically weaker section and low income groups families.

(from A.P. Dubey, Institute of Cooperative Management, Dehradun)

Swedish International Development Cooperation Agency (SIDA), New Delhi

P.O. Box 392 Chandragupt Marg, Chanakyapuri, New Delhi-110021; Tel: 26877819/7820; Fax: 26873631 http://www.sida.se/sida/jsp/sida.jsp?d=118&a=3322&language=en_US&searchWords=housing%20microfinance

Bilateral donor focusing on poverty reduction in the semi-arid rural regions, which also supports housing microfinance ventures.

National Cooperative Housing Federation (NCHF), New Delhi

6A/6, Siri Fort Institutional Area, August Kranti Marg, New Delhi-110049; Tel: 91-11-26491736/26490535; Fax: 91-11-26495450; nchf2001@yahoo.com; <http://www.nchfindia.net/index.htm>

National organisation promoting, developing and coordinating the activities of housing cooperatives in the country.

(from N. Srinivasan, Consultant, Pune)

National Housing Bank (NHB), New Delhi

Core 5-A, India Habitat Centre, Lodhi Road, New Delhi -110003; Tel: 011-24649032; Fax: 91-11-2464 6988 info@nhb.org.in; <http://www.nhb.org.in/Financial/default.htm>

Principal agency to promote housing finance institutions and formulates schemes for the purpose of mobilising resources and extending credit for housing.

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, Maharashtra; Tel: 91-22-26539244; Fax: 91-22-26528141 nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm>

Apex institution providing loan funds for microfinance infrastructure projects, rural housing and the rural non-farm sector.

Sri Kshetra Dharmasthala Rural Development Project, Karnataka

*(from Girija Srinivasan, Consultant, Pune)**

Dharmashri Building, Dharmasthala, Belthangady Taluk, Dakshina Kannada District, Karnataka-574 216; Tel: 08256 277215; Fax: 08256 277186 lhmskdrdp@vasnet.co.in; <http://www.skdrdpindia.org/Housing.htm>

NGO working on transfer of technology by providing the infrastructure and financing through micro credit, and has developed a housing programme to provide shelter.

Department for International Development (DFID), India

(from Cheryl Young (IFMR), Minakshi Ramji (CMF) and Stuti Tripathi (CMF), Chennai)

B-28 Tara Crescent, Qutab Institutional Area, New Delhi-110 016; Tel: 26529123; <http://www.dfid.gov.uk/pubs/files/pppinfrastructureoct04.pdf>

Bilateral donor contributed £6.8 million for community-led urban regeneration projects which aims at providing loans, guarantees, bridge finance and technical assistance.

(from Monika Khanna, Research Associate)

Homeless International, United Kingdom

Queens House, 16 Queens Road, Coventry CV1 3 EG,

United Kingdom; Tel: 44-024-7663-2802; Fax: +44 (0) -24 -7663 -2911 hannah@homeless-international.org; http://www.homeless-international.org/standard_1.aspx?id=0:36953&id=0:27820&id=0:27813

Homeless International supports community-led housing and infrastructure related development in partnership with local partner organisations in Africa and Asia.

Grameen Bank, Bangladesh

Grameen Bank Bhavan, Mirpur-1, Dhaka-1216, Bangladesh; Tel: 88-02-9005257-69; grameen.bank@grameen.net; http://www.grameen-info.org/index.php?option=com_content&task=view&id=28&Itemid=108

Largest microfinance institution in Bangladesh, provides interest based microfinance services including housing loans to the poor section.

Gujarat Mahila Housing Sewa Trust, Ahmedabad

401-402, Akashganga Complex, Fourth Floor, Brahmshatriya Co-op. Society, Gujarat College Road, Navrangpura, Ahmedabad-380009; Tel: 91-79-26560529, 55446208; Fax: 91-79-26560536 mail@sewahousing.org; http://www.sewahousing.org/housing_finance.htm

Initiated by SEWA to improve the housing and infrastructure conditions of poor women in the informal sector.



Consolidated Reply

Query: Financial Service Delivery Channels – Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate
20 March, 2007

From Manab Chakraborty, Mimo Finance, Dehradun

Posted 12 February, 2007

We at Mimo Finance (<http://www.mimofin.com>), a start-up microfinance institution based in Uttarakhand state, reach to remote part of the Himalayas. We find that this branch, as a channel of financial delivery, is perhaps not suitable to remote locations with low density of population and high transaction costs. This is why we are looking at alternative channels of service and product delivery. Having reviewed the literature, we found that microfinance services can be delivered through a variety of ways including branches, agents, franchisees, automated machines (such as ATMs for cash collection and disbursement), call centres for sale of insurance products and servicing policy holders.

We are particularly interested to learn about successful examples of harnessing the powers of agents and franchisees to deliver credit, remittances, and pension products. In this view, we have the following questions:

- What are the pros and cons of each of these service delivery channels?
- What are the legal, financial, and administrative do's and don'ts in setting up an agency or franchisee relationship?
- What are the resources – experts, institutions, manuals etc. – that are available to guide us?

Your timely advice and experience would help us sort out the concerns in finalising the specific channel of microfinance service delivery in remote Himalayan regions.

Responses were received, with thanks, from

1. Anil Kumar S. G., ICICI Bank, Mumbai
2. C. P. Mohan, College of Agricultural Banking, Pune
3. Gaurav Agarwal, Financial Information Network & Operations (FINO), Mumbai
4. Sachin Kumar, UNDP, New Delhi
5. Shailesh Kumar, Intellectap, Varanasi
6. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai
7. Malay Dewanji, Liberal Association for Movement of People, Kolkata

Further contributions are welcome!

Summary of Responses

In the quest to find alternatives to the branch model of microfinance service delivery, members shared views on the franchisee/agent model and low-cost technology models, which may help address issues of cost-effectiveness and how to reach out to remote regions with low population density.

Participants stressed that the utility of alternate delivery channels vary depending on the MFI's stage of development.

For start-up MFIs, members suggested they first focus on putting in place robust systems and processes, use appropriate technology and keep cost structures as low as possible, rather than trying for franchisee

model. This would enable the MFIs to build a strong loan portfolio, and then use the revenues for future investments into group formation, expansion, etc.

Discussants argued mature MFIs, which have achieved a reasonable level of scale and outreach, may look for alternate delivery channels, provided they have a plan for scaling up operations in new geographies and are meeting the financial needs of most of the people in their existing area. If the MFI is not at this stage, it is likely to spread itself too thin by trying to expand horizontally. Members listed several alternate ways for mature MFIs to deliver financial services, such as:

- By engaging with social agencies that are dealing with other sectors like health, education, retailing, MFIs could bundle financial services and leverage these social agencies to deliver financial services to their beneficiaries; however, there must be some synergy between the MFIs, activities and core activity of the partner agencies.
- Develop strategic partnerships with insurance companies and retailers.
- Use a business correspondent model or franchisee model.
- Set up branchless operations using low-cost technologies, like ATMs and call centres.

Respondents deliberated on different models of service delivery and shared experiences using these approaches in India. Analysing the business correspondent model, discussants cited the *Reserve Bank of India Circular*, which permits certain legal forms of MFIs to collaborate with banks and operate as a 'business correspondent'. As a 'business correspondent', these MFIs can offer services ranging from disbursement and recovery of loans to monitoring and handholding SHGs/Joint Liability Groups/Credit Groups.

Another model mentioned was a partnership model of microfinance service delivery. Members shared the experience of a national level development organisation that recently started using this type of model, and is seeking partnerships in *multiple states*.

When discussing the franchisee and agency model, respondents cited the example of a MFI in *Uttar Pradesh* trying to harness the power of franchisee model with the help of a microfinance-consulting firm. Working together, the MFI and consulting firm have jointly developed a well-designed microfinance-franchising package.

Members noted that while exploring the possibility of applying the franchisee model, MFIs need to consider the following points:

- Adding an intermediary like a franchisee/agent between the MFI and client may have negative implications on the cost of delivering microfinance services.
- Having another layer between the MFI and client might extend the timeline for achieving economies of scale.
- Using a franchisee/agent entails the MFI to share revenue/payment of service charges with the agent; hence, there may be strain on the MFI's bottom line, possibly affecting profitability.
- Utilising franchisees/agents may diminish some of the core competency of MFIs (like knowledge of local communities and the ability to design microfinance products accordingly) and make them dependent on franchisees/agents. Wholesalers like banks, financial institutions use the services of MFI model to meet their social obligations precisely for the reason that MFIs are aware of local needs and dynamics of geography.

Additionally for the franchise model to work, the franchisor and franchisee need to form a strategic alliance with well-defined goals and responsibilities along with timelines, monetary arrangements and recourse arrangements. This type of alliance, members argued, requires the following conditions:

- Similar strategic context for replication, to ensure success of the business model.
- A model capable of standardisation and stabilised in terms of strategy, systems, processes and performance.
- Willingness of franchisor to share technology/business processes in a transparent manner.
- Ability and willingness of franchisee to implement the franchisor's model in totality, with the necessary adaptations.
- Franchisee and franchisor have a holistic understanding of the cost-benefit and synergies. Both the parties know they are better off after the franchising arrangement and see value in their strategic alliance and honour their contractual arrangements including copyright issues, profit sharing and other aspects.

In addition to discussing alternate models for service delivery, members also highlighted the role of technology driven delivery channels (e.g. ATM, call centres, smart card etc.) in helping MFIs and their

clients bring down transaction costs and enhance service outreach. They shared a unique example of using smart card solutions in Karnataka, whereby the microfinance clients can engage in trading activities free from cash and moneylenders. They also underlined the significance of selecting the right kind of technology.

Overall, participants recognised the role of alternate microfinance service delivery systems in curtailing the transaction cost and increasing the efficiency in the delivery of financial services.

Comparative Experiences

Uttar Pradesh

Company with an MFI Developed a Franchising Package

(from Shailesh Kumar, Intellecap, Varanasi)

Intellecap, a Mumbai based company, along with Cashpor, one of the largest MFIs operating in Uttar Pradesh and Bihar, has developed a microfinance-franchising package called 'The IntelleCash Franchising Package'. The package intends to help entrepreneurs in setting up system and process for starting a franchisee such as developing organisational form, recruitment methodologies, on-the-job training, MIS and exposure to live operations.

Karnataka

Technology Service Provider Serving Microfinance Clients through Smart Card Solutions

(from Sachin Kumar, Research Associate)

The Financial Information Network and Operations Ltd. (FINO) collaborated with IBM to provide smart card solutions to the microfinance clients of Janalakshmi, an MFI based in Bangalore. The solutions were designed to enable traders and clients of the MFI, to participate in fruit and vegetable auction outlets. With FINO's help, traders now have access to the trading floor anytime without needing to carry cash or settle expensive loan arrangements through moneylenders.

Multiple States

LAMP Following Partnership Model to Enhance Microfinance Services in Unreached Region

(from Malay Dewanji, Liberal Association for Movement of People (LAMP), Kolkata)

LAMP is working in the field of microfinance and livelihoods development in West Bengal, Jharkhand, Orissa, and Delhi. It started a 'Partnership Model' with other NGO-MFIs to extend microfinance services. Under this model, LAMP shares 50 percent of the interest with its partners for their establishment and 40 percent of the other loan service charges for taking up local area development and women's empowerment programme activities.

Related Resources

Recommended Organisations

Intellecap, Mumbai

(from Sachin Kumar, UNDP, New Delhi)

Unit No. 201 and 221, Atlanta Estate, Off Western Express Highway, Goregaon (E), Mumbai-400063, Maharashtra; Tel: 91-22-32535292; Fax: 91-22-28778255; vineet_rai@aavishkaar.org; <http://www.intellecap.net>

Consultancy organisation helping MFIs to develop cost effective microfinance service delivery systems through innovative mechanisms like the franchisee model.

CASHPOR, Varanasi

(from Shailesh Kumar, Intellecap, Varanasi)

Opposite CARE Hospital, DLW-BHU Road, Bhikaripur, Varanasi-221004, Uttar Pradesh; Tel: 91-542-2322282/16166; Fax: 91-542-2322281; info@cashporindia.net, cashpor@sify.com; <http://www.cashporindia.net/index.asp>

MFI providing financial services to the poor in Uttar Pradesh and Bihar, exploring franchisee channel to extend its services into unreached regions.

Financial Information Network and Operations Ltd., Mumbai

(from Gaurav Agarwal)

C-401, Business Square, Solitaire Park, Chakala, Andheri-Kurla Road, Andheri (E), Mumbai-400093 Maharashtra; Tel: 91-22-40973466; info@fino.co.in; <http://www.fino.co.in>

Company helping MFIs to build technology led delivery channels to help provide microfinance services to the poor in a cost effective manner.

Liberal Association for Movement of People (LAMP), Kolkata

(from Malay Dewanji)

66, Surya Sen Street, Kolkata-700009, West Bengal;
Tel: 91-33-22418496/7469; guplamp@cal.vsnl.net.in;
<http://www.lamp-ngo-india.org>

NGO partnering with other NGOs for delivery of microfinance under an alternate financial delivery channel called partnership model, sharing risk and revenue in a pre-determined manner.

Microfinance Open Source (MIFOS), Bangladesh

(from Sachin Kumar, Research Associate)

Grameen Bank Bhavan, Mirpur-1, Dhaka-1216, Bangladesh; Tel: 88-02-9005257-69;
http://www.grameenfoundation.org/what_we_do/technology_programs/mifos_initiative

Initiated by Grameen Foundation's Technology Centre, MIFOS equips MFIs with technological support to help them serve their clients in cost effective and timely manner.

Recommended Documentation

Financial Inclusion by Extension of Banking Services. Use of Business Facilitators and Correspondents

(from Gaurav Agarwal, Financial Information Network and Operations (FINO), Mumbai)

Reserve Bank of India; January 25, 2006 <http://fiuindia.gov.in/downloads/68417.pdf>

Circular explains how certain legal forms of MFIs can partner with banks under business correspondent/facilitator model to deliver/facilitate range of financial services to the poor.

Franchising in Microfinance: How to Make it Work?

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai)

By Ramesh S. Arunachalam; Unpublished Paper; 2006
Paper highlights the ways and means for MFIs to use franchisee model as an effective micro-financial service delivery medium.

(from Sachin Kumar, Research Associate)

Experiment: Franchising Microfinance

Consultative Group to Assist the Poor; June 2005
<http://www.solutionexchange-un.net.in/mf/cr/res12020701.ppt>

PowerPoint presentation explains the concept of franchisee model and ways MFIs can leverage local

entrepreneurs to further expand financial services to untapped areas.

Biometric ATMs for Rural India

Express Computer; March 12, 2007

<http://www.expresscomputeronline.com/20070312/technology01.shtml>

Article on efforts made by Banks and IT companies for using biometric cards as a cost-effective tool to enhance financial delivery channel among the rural illiterate poor.

FINO Announces Partnerships with Janalakshmi Social Services

Moneycontrol.Com; March 8, 2007

Press release, announcing how FINO, a technology solution provider, and IBM, are providing core-banking and end-to-end smart card solutions for an urban MFI.

Mobiles Begin Calling Shots on Banking and Payments

By Stephen Timewell; The Banker; February 2007

http://cgap.org/press/press_coverage60.php

Article sheds light on the use of mobile phones for banking and payments as an alternative to reach the clients still untouched by the traditional banking channels.

Partnerships in Microfinance: A Discussion Primer

By Paul Greener; The Foundation for Development Cooperation

http://www.bwtp.org/Programs/partnerships_paper.pdf

Paper highlighting the success factors for building a strong partnership between MFIs and formal banks; also lists constraints and challenges linked with the partnership model.

Recommended Portal and Information Base CGAP Technology Resource Centre

(from Sachin Kumar, Research Associate)

http://www.microfinancegateway.org/resource_centres/technology

Online resource provides information on IT institutions helping MFIs set up the branchless financial service delivery channels and funding support for the same.



Consolidated Reply

Query: Human Development through Microfinance – Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate
Issue Dated: 22 March, 2007

From Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur
Posted 28 February, 2007

I am a development practitioner and currently doing a study on Sangam's (similar to SHGs) dropouts from microfinance programme of a MFI. One of the recommendations I propose to put across is that education and health care loans by MFIs help Sangam members improve their standards of living and may also contribute in reducing drop-out rate.

Under most of the credit programmes, loan entitlements are limited to loans for productive purposes. Human development investments like education, healthcare are considered as consumption expenditure and so are not usually considered as loan entitlement categories. I am yet to see a very popular microfinance product focusing on education and healthcare. So overall, in my understanding, there is very little investment in education and healthcare through microfinance.

Even formal financial institutions charge high rates of interest for education purposes. But I strongly feel that education needs to be shifted from the consumption to a productive investment loan category and should be promoted as an important item eligible for microfinance. Wealth generation is only just one component of human development, and education is much more important, since it teaches the basics of wealth generation. This means that there should be an overall change in the lending policy of microfinance service providers in terms of interest rates, charged for various human development loan entitlements (like education and healthcare).

I would like to hear from the esteemed members on:

- What are the constraints faced by microfinance service providers in putting educational loan into the category of investment loans?
- What sort of other support services are necessary to enhance human development through microfinance operations?
- Some examples where microfinance service providers have provided microfinance services for health and education purposes.

Looking forward to your valuable suggestions.

Responses were received, with thanks, from

1. Jayanta Munsi, Child in Need Institute (CINI), Kolkata
2. Rohit Raina, ACCESS Development Services, Udaipur
3. Soma Kishore Parthasarthy, Gender and Development Consultant, New Delhi (Response 1; Response 2)
4. Sachin Bansal, Centre for microFinance, Jaipur
5. Kedar Krushna Panda, ACCESS Development Services, Udaipur
6. Bharat Parekh, ACCESS Development Services, Bhopal
7. Manab Chakrabourty, Mimo Finance, Dehradun
8. G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad
9. Rama Reddy, Cooperative Development Foundation, Hyderabad

10. Pon. Aananth, HDFC Bank, Tamil Nadu
11. A. Madhan Kumar, DHAN Foundation, Madurai
12. Sachin Kumar, UNDP, New Delhi
13. Paul Thomas, Evangelical Social Action Forum (ESAF), Trichur
14. Vineet Rai, Intellectap, Mumbai
15. Satya Prakash Choubey, Centre for Micro Finance, Chennai
16. Aparna Krishnan, Centre for Micro Finance, Chennai
17. L. B. Prakash, Akshara, Hyderabad
18. Ramesh. S. Arunachalam, Microfinance Consulting Group, Chennai

Further contributions are welcome!

Summary of Responses

The query on the role of MFIs in providing health and education loan products and non-financial services, received valuable responses. Members shared both the constraints faced by MFIs delivering education and health services as well as alternative institutional mechanisms for meeting such requirements of the poor.

Respondents agreed that microfinance loans for education and health purposes are not 'consumption loans', rather they are long-term investment loans, which do not produce results (cash inflow) in a short span of time. They highlighted that credit suppliers categorise the purpose of a loan to define its revenue potential, while borrowers see loans as a means of survival and later for development. Members noted that irrespective of the distinction between 'consumptive' and 'productive' uses of loans, SHG members often utilise loans to address family or household needs, such as an illness in the family or for educating children. However, as resources increase, SHG members tend to graduate to loans for debt repayment, and further to purchase small equipment, seeds and other farm inputs.

Members cited several examples of NGO-MFIs and MFIs offering health and education based microfinance services from West Bengal, Uttarakhand, Tamil Nadu, and projects being carried out in multiple states. For example, one NGO is working in several states to help NGO-MFIs develop systematic 'credit plus' products and services (e.g. savings, insurance, market

linkage, training etc.) for healthcare and education. They mentioned that the MFIs working in the states mentioned above, offer micro-credit and insurance services (e.g. health insurance) with well-defined product features and lower interest rates compared to loans offered for income generation and asset development.

At the same time, respondents pointed out that not many MFIs offer 'credit plus' interventions. They attributed this fact to the high risk and experimental cost involved in developing health and education oriented microfinance products and services. Members felt MFIs need to increase their investment in health and education, not only to meet social objectives but also because it is a sound investment in relationship building. Investing in the social sector would enable their clients to address health and education problems and progress towards a higher level of well-being, which would eventually translate into an enhanced ability to absorb credit. Further, respondents emphasised that if microfinance clients are made aware of better utilisation of loans and surplus amount generated out of the 'productive' use of the micro-credit, they may start investing in health and education.

Along with sharing examples of MFIs engaged in the delivery of non-financial services, participants underlined some general practices and limitations of MFIs. They shared that MFIs generally provide health and educational loans based on a 'judgement' i.e. MFIs lack well-developed independent products with defined eligibility criteria, repayment structures, product features, loan appraisal techniques, and differential interest rates. Besides, they shared that MFIs find it difficult to control clients' borrowings from various sources and monitor their end utilisation. They also mentioned that MFIs provide small loans normally under their 'general purpose loan' category for school fees, school uniforms and books. Educational loans look like consumption loans and are typically small amounts that are used to address sudden income shocks.

Additionally, members provided advice for MFIs developing educational and health loans products. They advised:

- Assessing the business viability of such products before developing them on a large scale, design loans as per the need, and be sensitive to the cash flows of the clients.

- Considering the inclusion of health and education lending as long-term investment with differential lending norms.
- Documenting the process and product features for health and educational loans.
- Conducting research and studies about the variables, which affect the process of designing health and education based microfinance products.

Besides delivering non-financial micro-credit services to the poor, respondents recommended some alternative institutional mechanisms for meeting their health and educational needs. They suggested leveraging the banking correspondent model to cater to educational loans for technical or professional education, particularly for large loans, which MFIs can refer to nearby banks. Another option mentioned is to develop appropriate health insurance products with the help of insurance agencies including using community based microfinance models. Designing savings products for the poor to meet predictable expenses (e.g. for education or marriage) was a third suggestion. Members highlighted the experience of an NGO-MFI in Rajasthan using this approach as a successful example. They also recommended SHG federations creating a risk fund for members to use based on their needs.

Respondents agreed that microfinance (credit, insurance and savings) services alone are not sufficient to enhance human capital development. To improve the standard of living for the poor, other support services, complementing microfinance operations are required. These services include:

- Designing intensive training for women on gender, livelihoods, and rights and justice issues.
- Exploring the potential of SHGs to serve as a medium for women's empowerment, including capacity building inputs on public health.
- Enhancing other microfinance services like market linkages, health education and financial literacy.
- Ensuring quality health and education services are available to the poor (e.g. in Tamil Nadu, Orissa, Bangladesh).
- Providing incentives to the poor to discourage child labour.
- Investing in vocational and skill training opportunities for SHG members with minimal levels of education and in their awareness of rights.

In sum, members stressed the potential positive role of microfinance in human capital development.

They advised MFIs should view the provision of health and education loan services as an investment in communities to enable them to develop their potential, rather than merely as a source of revenue.

Comparative Experiences

Rajasthan

NGO Helping SHGs to Save Money for Health and Education Purposes

(from Sachin Bansal, Centre for microFinance, Jaipur)

The NGO Ibtada, operating in Alwar district, aims to promote SHG members and enable women members to access cheap and timely credit. It helps women members to meet their health and education expenditures through inculcating the habit of internal savings. These savings are supposed to meet their predictable needs for marriage, education, festivals etc. Presently, almost 2,000 members have saved more than Rs. 28 lakh.

Uttarakhand

MFI Introducing Education Loans for Vocational Training and Secondary Education

(from Manab Chakraborty, Mimo Finance, Dehradun)

Mimo Finance based in Dehradun is trying to develop education loan products for students, especially girls, to meet expenses for vocational training and primary education level until 8th Standard. To do this, it is working with an industrial association and groups of schools to design appropriate loan products. The expected benefit of this effort is the creation of a pool of individuals with technical skills and to encourage girls to complete their secondary education.

Tamil Nadu

SHG Federation Catering to Health Services for its Members

(from Pon. Aananth, HDFC Bank, Tamil Nadu)

Kadamalai Kalanjia Vattara Sangam, promoted by Kalanjiam Foundation, is an autonomous and financially self-sufficient federation of SHGs at Mayiladumparai-Kadamalaikundu block in Theni district. Having identified the huge need among its members for proper maternity healthcare services, first, it appointed traditional birth attendants and then it set up a hospital able to serve patients (served 270 SHGs as of March 2005) from 15 villages of the block.

MFI Offering Well Defined Health and Educational Loans

(from Sachin Kumar, UNDP, New Delhi)

The Indian Association for Savings and Credit has four broad categories of well-defined micro-credit products. Under one of the four loans category, it offers loans for education (maximum loan size Rs. 25,000 for up to 3 years) and medical emergencies (maximum loan size Rs. 5,000 for up to 2 years). It also offers loans for constructing latrines (maximum loan size Rs. 7,500 for up to 2 years).

Madhya Pradesh NGO Giving Loans for Education and Health at Lower Interest Rate

(from Soma Kishore Parthasarthy, Gender and Development Consultant, New Delhi; response 2)

Pradeepan is an NGO based in Betul district working to improve the standard of living for the poor. It provides micro-credit to SHG members at a monthly interest rate of one percent for the poor to meet their health and education expenses, as compared to two percent interest on loans for other items. The NGO gives priority to loans for health and education over providing loans for other purposes.

(from Sachin Kumar, UNDP, New Delhi)

West Bengal Health Protection Initiative by an MFI for its Microfinance Clients

Bandhan, one of the fastest growing MFIs in eastern India, recently collaborated with Freedom From Hunger under its 'Microfinance and Health Protection Initiative'. Under this programme, the MFI plans to provide emergency health loans along with loans for healthcare services and education. The MFI disbursed the first health loan on February 2007 worth Rs. 25,000 among five members for surgical and treatment purposes.

Orissa Social Development Wing of an MFI Provides Multiple Non-Financial Services

BISWA is a group of organisations serving social and financial needs of the poor. Its social wing opened 15 schools in rural parts of Sambalpur titled as 'Innovative Schools,' which provide formal and non-formal education. In 2005-06, it also organised many health camps for general health check-ups, benefiting

thousands of poor. In addition, almost 1,900 people attended the eye camps where operations were conducted and medicine and spectacles distributed.

Multiple States Developing Credit Plus Products Inclusive of Health and Education Related Services

(from Kedar Krushna Panda, ACCESS Development Services, Udaipur)

Reach India, a Freedom From Hunger's initiative, is establishing a network of capacity-building service centres to strengthen 'Self-Help Promoting Institutions' (SHPIs). Its priority focus is on the east and northeast, where SHGs are limited in terms of strength and size. It works with SHPIs to provide self-help solutions to the SHGs, like savings, credit, insurance, health education and training, and facilitate linkages with other institutions (like health clinics).

Women's Group Making its Own Rules for Meeting Health and Education Needs

(from Soma Kishore Parthasarthy, Gender and Development Consultant, New Delhi; response 2)

In 1988, Mahila Samakhya was launched to provide conceptual and practical links between women's empowerment and education. The programme is currently being implemented in over 9,000 villages in 10 states. The federations formed under this programme, formulate their own rules of operation on the need for investment in health and education. Some groups have decided to give 20 percent of their own savings as interest free lending for these purposes.

MFI Having Interest Free Loan Product for Health Related Needs

(from Satya Prakash Choubey, Centre for Micro Finance, Chennai and Sachin Kumar, UNDP, New Delhi)

SKS India is one of the top five MFIs in the country delivering microfinance services in more than 10 states. Besides loans for income generation and asset development, it has a loan product called Raksha (Emergency Loan) which is given to meet health, funerals and hospitalisation related expenses. It provides such loans for the maximum period of 20 weeks payable in lump sum without any interest rate. In addition, they are exploring insurance product for health.

International

Bangladesh

Providing Comprehensive Services for Overall Human Development

(from Sachin Kumar, Research Associate)

The Bangladesh Rural Advancement Committee has adopted a comprehensive development approach including economic and social development, education and health programmes. Under its education programme, it operates more than 34,000 non-formal primary education schools. These schools accounted for 11 percent of the primary school children. Under its health programme, it provides preventive, curative, and rehabilitative health services to 31 million people.

Related Resources

Recommended Organisations

Ibtada, Alwar

(from Sachin Bansal, Centre for microFinance, Jaipur)

Plot No. 4, Scheme 8, Gandhinagar, Alwar-301001, Rajasthan; Tel: 91-144-2702452/3121;

Fax: 91-144-2345509;

<http://www.ibtada.org/aboutus.asp>

Non-governmental development organisation offering savings products to its microfinance clients for meeting predicted expenditures like education and marriage.

REACH India, Kolkata

(from Kedar Krushna Panda, ACCESS Development Services, Udaipur)

20D, Belvedere Road, 2nd Floor, Alipore, Kolkata-700027, West Bengal; Tel: 91-33-2479-2452;

Fax: 91-33-2479-2450; <http://www.reach-india.net>;

<http://www.freedomfromhunger.org/programs/reach.php>

Strengthening the capacity of institutions to promote SHGs by providing SHG members financial and non-financial services including education and health related services.

Mimo Finance, Dehradun

(from Manab Chakraborty)

#341, Vasant Vihar, Phase II, Dehradun-248006, Uttarakhand; Tel: 91-135-3205441; mimofin@gmail.com;

<http://www.mimofin.com>

Working with industry groups and schools to develop education loan products for vocational

and primary education, particularly targeted towards girl students.

DHAN Foundation, Madurai

(from Pon. Aananth, HDFC Bank, Tamil Nadu)

21, Pillaiyar Koil Street, S. S. Colony, Madurai-625016, Tamil Nadu; Tel: 91-452-2610794;

Fax: 91-452-2602247; kalanjam@sancharnet.in;

<http://www.dhan.org/kcbp/frames.html>

Set up the Kalanjam Foundation which promotes a federation of SHGs providing healthcare services to its members along with microfinance services.

(from Vineet Rai, Intellectap, Mumbai)

Vaatsalya, Karnataka

<http://vaatsalya.com/front/?q=node/1>

Healthcare services company providing affordable quality healthcare services to the rural and semi-urban areas, thus creating viable and socially responsible business opportunity.

Neurosynaptic Communications Pvt. Ltd., Bangalore

386, 15th Cross, 5th Main, 6th Sector, HSR Layout, Bangalore-560034, Karnataka; Tel: 91-80-4111-0520;

info@neurosynaptic.com; <http://www.neurosynaptic.com/businessfocus.htm>

Having expertise in telemedicine for remote rural and urban healthcare, the company is addressing self-sustainability and scalability of rural telemedicine solutions.

SKS Microfinance, Hyderabad

(from Satya Prakash Choubey, Centre for Micro Finance, Chennai and Sachin Kumar, UNDP, New Delhi)

301, Babukhan Estate, Basheerbagh, Hyderabad-500029, Andhra Pradesh; Tel: 91-40-23298131/41;

Fax: 91-40-23298161; info@sksindia.com;

<http://www.sksindia.com/education>

Besides providing loans for maternal health, hospitalisation and funerals purposes, the MFI also introduced pre-school programmes, health and nutrition programmes for the clients.

(from L. B. Prakash, Akshara, Hyderabad)

Healing Fields Foundation, Hyderabad

Door No. 6-3-1238/B/14, Asif Avenue, Tarakarama's Shreyas, Rajbhavan Road, Somajiguda, Hyderabad-500 082, Andhra Pradesh; Tel: 91-40-23320496/497;

Fax: 91-40-23320498; secretariat@healing-fields.org;

<http://www.healing-fields.org/projects.htm>

Non-profit organisation working with NGO-MFIs to deliver health insurance products to the poor microfinance clients through its Healthcare Financing Delivery Project.

Ankuram Sangamam Poram, Secunderabad

142 and 143, Aptext Book Colony, Karkhana, Secunderabad-500009, Andhra Pradesh; Tel: 040-27894574; Fax: 91-40-27894573; info@ankuram.com; http://www.ankuram.com/shgatwork.htm

Cooperative federation providing health insurance services to its microfinance clients in collaboration with Healing Fields Foundation.

(from Soma Kishore Parthasarthy, Gender and Development Consultant, New Delhi (response 2))

Mahila Samakhya, New Delhi

Ministry of Human Resource Development, Government of India, Shastri Bhawan, New Delhi-110001, Fax 91-11-23074113; webmaster.edu@nic.in; http://education.nic.in/ms/ms.asp

Programme promoting women's federations, which are involved in internal savings and lending to meet education and health needs of their members.

Pradeepan, Betul

At and Post: Bouregaon (Gene), District Betul, Madhya Pradesh-460001, Tel: 91-7141-262663

NGO working for economic and social upliftment of the poor through facilitating SHG members access loans for health and education at economical interest rate.

Nirantar, New Delhi

B-64, Second Floor, Sarvodya Enclave, New Delhi-110017, Tel: 91-11-26966334; Fax: 91-11-26517726; nirantar@vsnl.com; http://www.nirantar.net

Resource centre for gender and education, conducted studies on the significance of education in women's empowerment along with the role of microfinance in their upliftment.

(from Sachin Kumar, UNDP, New Delhi)

Bharat Integrated Social Welfare Agency (BISWA), Sambalpur

Danipali, Post: Budharaja, Sambalpur-768004, Orissa; Tel: 91-663-2533597; Fax: 91-663-2533597; info@biswa.org; http://www.biswa.org/activity/socialdev/social_development.html

Under its social development programme, the MFI provides health, education and other non-financial services to SHG members for overall human development.

Freedom From Hunger, USA

1644, Da Vinci Court, Davis, CA 95618, Tel: (530) 758-6200, Ext: 42; Fax: (530) 758-6241; info@freedomfromhunger.com; http://www.freedomfromhunger.org/programs/mahp.php

Through its microfinance and health protection initiative, helps MFIs create and sustain health protection services complementing the microfinance needs of their credit clients.

Bandhan, Kolkata

AB-48, Sector-1, Salt Lake City, Kolkata-700064, West Bengal; Tel: 91-33-23347602; Fax: 91-33-2334613; info@bandhanmf.com; http://www.bandhanmf.com/news.asp#n121

Introduced a health programme in collaboration with Freedom From Hunger to provide healthcare and education services, and emergency health loans to its microfinance clients.

Indian Association for Savings and Credit (IASC), Madurai

205, Chinnasamy Naidu Road, New Siddhapudur, Coimbatore-641044, Tamil Nadu; Tel: 91-422-5388867/9867; Fax: 91-422-5388867; admin@iasc.in; http://www.iasc.in/products_services.html

A Section 25 company providing health and education based micro-credit services to the poor in rural and urban areas.

Evangelical Social Action Forum (ESAF), Trichur

(from Paul Thomas)

P.B. No. 12, Hephzibah Complex, Mannuthy, Trichur-680651, Kerala; Tel: 91-0487-2371472/3813; Fax: 91-0487-2371472; esaf@sancharnet.in; http://www.esafindia.org/departments_CHR.htm

Charitable society that along with providing microfinance services to the poor women, facilitates community health and rehabilitation services for overall human development.

Self Employed Women's Organisation, Ahmedabad

(from Satya Prakash Choubey, Centre for Micro Finance, Chennai; Sachin Kumar, UNDP, New Delhi)

SEWA Reception Centre, Opp. Victoria Garden, Bhadra, Ahmedabad-380001, Gujarat; Tel: 91-79-25506444/77; Fax: 91-79-25506446; mail@sewa.org; http://www.sewa.org/services/index.asp

Provides microfinance services including life and health insurance services to its members and helps

them obtain health education, curative care and other non-financial services.

(from Ramesh S. Arunachalam, Micro-Finance Consulting Group, Chennai)

International Network of Alternative Financial Institutions, Madurai

New No. 65, First Floor, 3rd Street, Harvey Nagar, Madurai-625016, Tamil Nadu; Tel: 91-452 – 2300490; Fax: 91-452-4358490; indiainafi@airtelbroadband.in; <http://www.inafiindia.in>

Global network of development organisations involved in promoting microfinance programmes and conducting research on microfinance policy and operational issues.

International Labour Organization (ILO), New Delhi

ILO Sub-regional Office for South Asia (SRO-New Delhi), India Habitat Centre, 3rd Floor, Core 4B Lodhi Road, New Delhi-110003, Tel: 91-11-24602101-02-03; Fax: 91-11-24602111; sro-delhi@ilodel.org. in; <http://www.ilo.org/public/english/region/asro/newdelhi/areas/index.htm>

Promotes global campaign on social security and coverage for workers in informal economy promoting tools and methods to improve governance of social security systems.

Bangladesh Rural Advancement Committee (BRAC), Dhaka

(from Sachin Kumar, Research Associate)

75 Mohakhali, Dhaka-1212, Bangladesh; Tel: 880-2-9881265-72; Fax: 880-2-8823542/614; brac@brac.net; <http://www.brac.net/coreprogs.htm>

Imparting comprehensive services comprising microfinance, health, education and other non-financial programmes for economic and social development of the poor.

Recommended Documentation

Linkages with Microfinance and Effective Education with a Focus on Parental Involvement: An Exploratory Study in Andhra Pradesh, India

(from Aparna Krishnan, Centre for Micro Finance, Chennai)

By Margot Quaegebeur and Srivatsa Marthi; Centre for Microfinance Research; Working Paper Series; August 2005

<http://ifmr.ac.in/pdf/workingpapers/8/microfinance.pdf>
Exploratory case study assessing educational situation of children of microfinance clients and

the role of MFIs in helping clients' children to get quality education.

SHGs, Empowerment and Equity

(from Soma Kishore Parthasarthy, Gender and Development Consultant, New Delhi; response 1)

Nirantar; 2006

For a copy contact Soma Kishore Parthasarthy
Paper stresses the need for intensive training and capacity building services for SHG members for achieving the social goals of microfinance programmes.

(from Soma Kishore Parthasarthy, Gender and Development Consultant, New Delhi (response 2))

Examining Empowerment, Poverty Alleviation and Education within SHGs

Nirantar; 2007

For a copy contact Soma Kishore Parthasarthy
Study shows the inequitable distribution of socio-economic benefits among the SHG members and absence of capacity building services for the SHG members.

SHGs: Literacy and Power Relations

Nirantar; 2007

For a copy contact Soma Kishore Parthasarthy
Paper highlights how women SHG members that are financially better-off and literate, influence decisions relating to distribution of internal credit among poorer members.

Business Plan Winner Targets India Dropouts

(from Bharat Parekh, ACCESS Development Services, Bhopal)

By Carla Tishler; Harvard Business School; May 2003
<http://hbswk.hbs.edu/item/3478.html>

Business plan for developing education loan products using microfinance concept to provide quality and sustained education for school going children from poor families.

(from Sachin Kumar, Research Associate)

From Microfinance to Macro Change: Integrating Health Education and Microfinance to Empower Women and Reduce Poverty

United Nations Population Fund (UNFPA) and Microcredit Summit Campaign; 2006

http://www.unfpa.org/upload/lib_pub_file/530_filename_advocacy.pdf

Provides case studies from Bolivia on the successful

integration of health education and microfinance services, and how microfinance services help improve reproductive health.

The Influence of Microfinance on the Education Decisions of Rural Households: Evidence from Bolivia

By Jorge H. Maldonado and Claudio Gonzalez-Vega et al; presented at the Annual Meeting of the American Agricultural Economics Association; Ohio State University; July 2003

Paper addresses household decision on schooling and the role microfinance plays in such decisions through income, risk coping, gender, child labour and information sharing.

Microfinance and Effective Tools to Increase the Outreach of Educational and Health Programmes

Dr. Mostaq Ahhmed; Planet Finance; 2004

<http://www.planetfinance.org/documents/EN/Microfinance-Health-and-Education.pdf>

Report compiled worldwide examples of MFIs that have integrated education and health programmes with ongoing microfinance activities for improved living standards of clients.

Recommended Portal and Information Base Centre for Micro Finance, Institute for Financial Management and Research

(from Satya Prakash Choubey, Centre for Micro Finance, Chennai)

<http://www.ifmr.ac.in/cmfi>

The website of CMF hosts a list of research papers on microfinance conditions in Indian context including a study on integrating microfinance with health and education.

II.
***Micro Insurance – Concepts, Products, Services
and Delivery Mechanisms***



Consolidated Reply

Query: Delivery of Micro Insurance Services – Experiences

Compiled by Sumeeta Banerji, Resource Person

Issue Date: 25 April, 2007

From Ajaya Mohapatra, We The People, New Delhi

Posted 3 April, 2007

'We The People' is a start-up not-for-profit social venture corporation registered under the Societies Registration Act, 1860. We aim to provide institutional, financial and business development services and integrate socio-economic objectives with innovative business propositions and revenue flow mechanisms to promote equitable economic growth and sustainable human development.

Under our microfinance operation, soon we are planning to launch micro insurance operations in both the categories – life insurance and general insurance. Many of our rural clients are looking for various micro insurance products, but, due to lack of knowledge of various available insurance products and in the absence of backward as well as forward linkages, they are unable to avail such opportunities.

In light of the above, 'We The People' has been exploring possible partnership options with various insurance companies for launching micro insurance for our customers. However, we are grappling with a few issues with regard to micro insurance. Therefore, we would like to learn and replicate from the work done so far which would add immense value to our micro insurance operation. We would be grateful if members could share:

- Experiences of innovative models, best practices, case studies, in provision of micro insurance services by civil society organisations, MFIs, insurance companies, IRDA (Insurance Regulatory Development Authority), financial institutions, corporations, other professionals. Evaluation reports and lessons learnt from such initiatives would be appreciated.

- Are there instances of NGOs that have been able to launch micro insurance products both in rural as well as urban areas? Did they do this as 'Composite Corporate Agent' or 'Corporate Agent' or 'Micro Insurance Agent'? What are the advantages and disadvantages of becoming a 'Composite Corporate Agent' or a 'Corporate Agent' or a 'Micro Insurance Agent'? Or are there any other better options in this sector for NGOs?
- Are NGOs registered under Society Registration Act, 1860, Indian Trust Act, 1880 and Section 25 of Companies Act, 1956, allowed to promote micro insurance with due approval of IRDA?

Responses were received, with thanks, from

1. Vineet Sinha, Centre for Micro Finance, Chennai
2. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Response 1; Response 2; Response 3)
3. Vigyan Vikram Singh, BASIX, Dhaulpur, Rajasthan
4. Sayed Imtiaz Ahmed, Centre for Insurance and Risk Management, Institute for Financial Management and Research, Chennai
5. L. B. Prakash, Akshara, Hyderabad
6. Perumal Koshy, World Association for Small and Medium Enterprises, New Delhi
7. Mukul G. Asher, University of Singapore, Singapore

8. A. K. Upadhyay, Oriental Insurance Company Ltd., New Delhi
9. Vikash Kumar, Grameen Koota, Bangalore
10. M. V. Raman, Java Softech Pvt. Ltd., Hyderabad
11. G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad

Further contributions are welcome!

Summary of Responses

Responding to the query requesting case studies and innovative models along with lessons learnt providing micro insurance services, members emphasised that micro insurance is a first step in providing social and economic security to the poor, particularly business and livelihood security. They also noted that the life and non-life insurance market has enormous potential in India.

Elucidating the challenges of delivering micro insurance, members outlined the three biggest challenges from the intermediaries' perspective to providing services to low-income clients – burdensome claims documentation, delays in paying claims, and occasional claims rejections. These issues pose serious difficulties for intermediaries trying to market insurance products. Another challenge for insurance providers is the lack of specific data for the micro insurance target market, which makes pricing of products complex. Without actuarial calculations, premiums are likely to be set too high or too low. At the same time, respondents stressed that insurance operations can also help MFIs and development organisations attain secure and sustainable operations.

Additionally, members noted the key difference between delivering traditional services and micro insurance products is the client base, which can have significant implications for distribution of micro insurance. Given their familiarity with specific characteristics of low-income clients and due to their proximity to potential clients, NGOs and MFIs are often positioned well to provide insurance and market insurance products to this target group. However, respondents recommended NGOs and MFIs start working as 'insurance awareness agents' and eventually move to selling products. Moreover, delivery of insurance products and claim settlements

ideally needs routing through an established network that clients trust (e.g. post offices and rural banks).

Delving into the legal aspects of provision of insurance by NGOs, members clarified NGOs can register as a service provider according to IRDA guidelines and serve as an agent for the insurer; however, it is not necessary for NGOs to work as an agent. The IRDA regulations also allow for granting "corporate agency" to NGOs exclusively doing insurance intermediation. In such cases, according to the Guidelines on Licensing of Corporate Agents, IRDA, 2005, the corporate agent should be a Public Limited Company with a minimum share capital of Rs. 15 lakh. Corporate agents, members advised, need to canvass insurance products with the help of qualified (as per the regulations) insurance professionals. Members pointed out that compared to corporate agents, the regulations are somewhat more liberal and flexible for micro insurance agents. Additionally, within the Micro Health Insurance Regulation of 2005, IRDA has identified NGOs, MFIs and SHGs as the bodies that can act as agents.

Respondents provided several case studies and models for delivering micro insurance. One example was a sectoral resource centre in Tamil Nadu, which is providing various insurance products in partnership with private insurers. Citing experiences in delivery of innovative products in Karnataka and Orissa, members mentioned that the schemes in the Karnataka example serve both rural and urban populations with the intermediary playing the role of micro insurance agent. Another insurance model was of a joint collaboration between CBOs, MFIs and mainstream financial institutions to address the pension needs of the poor. A third example was mutual insurance schemes from Andhra Pradesh, with self-administered and mutually managed products.

Members also cited experiences from a donor-supported fund, which has supported three major insurance companies in a public private partnership mode. The three models include:

- Private company which is using a network of village internet portals to market and distribute a range of life and general insurance policies to farmers in Andhra Pradesh and Madhya Pradesh.
- Insurance company collaborating with NGO-MFIs and SHGs including a Community Rural Insurance Group to deliver innovative micro insurance products and advisory services to individuals from lower socio-economic rural communities.

- Private insurance company using multiple channels and services to meet the needs of low-income clients in rural and urban areas including towns in Andhra Pradesh and offering affordable mass-market and tailor-made life insurance and pension products.

Along with discussing different experiences, respondent advised analysing experiences with micro insurance products developed and administered by collectives of poor (cooperatives or producer companies) across the world. Further, they recommended providing technical assistance to existing collectives on mutual insurance products or developing products for these organisations.

Based on some of these experiences, a respondent shared key lessons learned on giving insurance to low-income people. These lessons are compiled in an unpublished review of insurance models and good practices from several countries:

- Technology can reduce cost, time and effort in distribution (e.g. to fill insurance proposals and transfer them for vetting to insurance companies).
- Existing infrastructure and distribution systems, familiar to poor clients (like local opinion leaders), can be leveraged to sell insurance.
- The 'insurance concept' can be disseminated using appropriate and innovative promotional, marketing and operational strategies (i.e. web casting, mobile vans with videos, websites), thereby enhancing the effectiveness of message being promoted and facilitating better understanding.
- Setting up a quick and fair claims service is one of the most important aspects for effective distribution; intermediaries could expedite claims payment procedures, reduce or eliminate the likelihood of claims being rejected, or pay claims directly and be reimbursed later by the insurer. Additionally, intermediaries could ensure the required documentation is appropriate for their low-income clients, and easy and inexpensive to access. When a claim is paid, the intermediary could arrange a special ceremony to make a spectacle, sometimes even involving the local officials – this event creates significant public relations value and word-of-mouth marketing.
- Simple products work best because they are easier for organisations to administer and for clients to understand.

- Actuarial costing analysis is required to determine the appropriate commission for intermediaries and premium loadings, to cover administrative expenses, and to set up an effective premium collection system that minimises and/or prevents lapses.
- Avoid entangling insurance and credit risks by mixing insurance with loans.
- Organisations need systems to ensure proper distribution controls and guidelines.

Complementing the national insurance regulator as being "enabling" and a trend setter with regard to good policies, a member also provided details of regulation of the commission structure in India.

Finally, while highlighting the differences between urban and rural contexts, respondents pointed out that no follow-up is required to renew policies or provide post sales servicing for urban middle class customers, as compared to rural customers where the intermediary has a significant role to play in terms of servicing the customer and providing post sale support. This factor, they argued, calls for designing a variable commission structure. IRDA recently recognised this fact and through the micro insurance regulation has eliminated the 'heaped structure' and introduced annual flat (20%) commissions. However, capping of commissions remains to ensure lower prices for the poor.

In summary, members stressed that distribution channels for micro insurance must suit customers and deliver what they want. This means that effective implementation of micro insurance requires a comprehensive understanding by implementing organisations of their target clients and focused efforts in order to educate clients on insurance services and products.

Comparative Experiences

Tamil Nadu

Sectoral Resource Centre Develops Risk Mitigating Insurance Products

(from Sayed Imtiaz Ahmed, Centre for Insurance and Risk Management (CIRM), IFMR, Chennai)

CIRM, is a sectoral resource centre looking at developing customised risk mitigating instruments (including insurance) to address the various risks the poor face. It was established to provide the poor with insurance and other risk mitigating options. As of

now, it has launched three micro insurance products – health, weather and livestock in the country through partnerships with private insurers.

Andhra Pradesh

Partnership to Provide Affordable Health Insurance

(from Vineet Sinha, Centre for Micro Finance, Chennai)

Healing Fields Foundation is an NGO, which works to promote health awareness and delivery of health insurance products to poor clients, in partnership with insurance companies, NGOs, and the government. Under its Healthcare Financing Delivery Project, it delivers a health insurance product called 'Parivar Suraksha Bima,' which was specially designed for the rural sector. The product allows the subscribers access to affordable and quality medical treatment.

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai; response 1)

Affordable Insurance and Pension Products for the Poor Communities

Reliance Life Insurance Company started "The Light of Wealth Scheme" in 2003 with funding support from the Financial Deepening Challenge Fund. The scheme aims to provide life insurance (term and endowment policies) and pension services to a target group of 16 million in four districts. Through this initiative, Rs. 28.3 million was collected through the savings cum insurance plans and over 1,500 regular policies sold.

Micro Insurance for Landless, Daily Waged Rural Poor

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai; response 1)

TATA-AIG, a private insurance agency, received funding from Financial Deepening Challenge Fund to start an insurance project in September 2003 to provide life insurance services to the landless poor and daily rural wageworkers. By the end of August 2006, the agency had insured over 12,000 individuals, collecting over Rs. 40 Lakh in premium.

Public Private Community Partnership for Insurance Provision

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad)

Society for Elimination of Rural Poverty (SERP) introduced insurance services as part of its poverty

alleviation programme in 2003. CBOs, mainly SHGs and their Federations, are co-opted to run cattle and life insurance schemes including education insurance, sales and marketing of insurance products, facilitating member enrollment, collection of premium and transfer to district level institution.

Karnataka

(from Sayed Imtiaz Ahmed, Centre for Insurance and Risk Management, IFMR, Chennai)

Intermediary NGO Plays Role of Insurance Agent

Shri Kshetra Dharmasthala Rural Development Project (SKDRDP), an NGO along with ICICI Lombard General Insurance Company Limited is implementing 'Sampoorna Suraksha', which covers reimbursement of hospitalisation expenses, death compensation, domiciliary treatment for families, accident insurance, maternity expenses, compensation for calamities and livelihood assets. By 2005, 75,000 families had joined the programme and the total premium amounted to Rs. 26.85 million.

Health Cards for Insurance Provision

With the prime motive of providing healthcare to the poorest sections of the surrounding community, Manipal Academy of Higher Education Group came up with a comprehensive health benefit scheme, called the Manipal Health Card (MHC). MHC scheme has helped to substantially improve access to healthcare, by being customer friendly and affordable.

Orissa and Chhattisgarh

Cattle Insurance for Group Members

KAS Foundation is an MFI operating across 24 districts in two states. All milch animals purchased by the dairy SHGs and joint liability groups (JLGs) are covered under the cattle insurance of ICICI Lombard. Majority of its 1.66 lakh borrowers are also covered under the Rural Health policy of ICICI Lombard. Moreover, since 2006, the Foundation has set a social security fund to cover the lives of group members.

Multiple States

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (response 1))

Fund for Deepening Financial Services to the Poor

The Financial Deepening Challenge Fund, launched in April 2000 financed by DFID and managed by Enterplan, funds and supports 28 projects in 15 countries. In India, it is funding four projects, leveraging technology to bring financial services such

as affordable insurance and crop financing to rural communities through AMP Sanmar, Megatop, TATA-AIG and UTI bank. The Fund has been successful in encouraging private companies to provide insurance services to low income clients.

Micro Insurance Programme for Farmers

Megatop, an insurance subsidiary of ITC Limited under the Financial Deepening Challenge Fund initiated a project in December 2003 on micro insurance in Andhra Pradesh and Madhya Pradesh. The aim was to offer a range of insurance products to farmers in 9,000 villages using the ITC e-choupal network of village internet portals to market and distribute the policies. By the end of August 2006, over 34,000 policies had been sold with premium amounting over Rs. 800 lakh.

Life and Livelihood Insurance Products through Effective Partnerships

(from Vigyan Vikram Singh, BASIX, Dhaultpur)

BASIX, through Bhartiya Samruddhi Finance Ltd, an NBFC, is engaged in retailing insurance at the doorstep of rural customers. It partnered with insurance companies to design both credit-linked and direct insurance products in the area of life, livestock, health and rainfall insurance. It has succeeded in providing the entire life and livelihood protections services through a single channel and has achieved quick turn around time for claim settlements.

(from Sumeeta Banerji, Resource Person)

BASIX and AVIVA Partner to Provide Life Insurance

In 2002, BASIX and AVIVA Pictures of UK jointly designed a group life insurance product to provide life insurance to all BASIX credit customers, where the extent of coverage was up to one and half times the loan amount. In December 2003, BASIX entered into a Corporate Agency relationship with AVIVA to retail rural life insurance products to non-loanees. By 2005, it had covered 150,000 clients totalling a premium amount of Rs. 12 million and had settled claims amounting to Rs. 4 million.

BASIX and Royal Sundaram Partner to Provide Livestock Insurance

In 2002, BASIX collaborated with Royal Sundaram to distribute livestock insurance. They focused on products and simplifying processes in order to deliver insurance to customers. From 2005, BASIX has also

begun offering health insurance to all its credit customers. Additionally, in 2006, BASIX launched health insurance for SHG members and a micro-enterprise scheme to cover rural non-farm enterprises. By March 2006, BASIX was contributing over Rs. 10 million to the company's gross premium.

BASIX and ICICI Lombard Partner to Provide Rainfall Insurance

BASIX and ICICI Lombard along with the Commodity Risk Management Group, World Bank, have done pioneering work in piloting "rainfall insurance" in India, starting with the first time introduction of the product in the year 2003. In 2005, the product was rolled out in all six states where BASIX has an operational presence. Significant progress has been achieved in terms of the product design and delivery mechanism.

Related Resources

Recommended Organisations

(from Vineet Sinha, Centre for Micro Finance, Chennai)

Insurance Regulatory and Development Authority (IRDA), Hyderabad

3rd Floor, Parisrama Bhavanam, 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.

Healing Fields Foundation, Hyderabad

Door No. 6-3-1238/B/14, Asif Avenue, Tarakarama's Shreyas, Rajbhavan Road, Somajiguda, Hyderabad – 500082, Andhra Pradesh; Tel: 91-40-23320496/497; Fax: 91-40-23320498; secretariat@healing-fields.org; <http://www.healing-fields.org/projects.htm>

Non-profit organisation working with NGO-MFIs, hospitals and insurance companies to deliver health micro insurance products and services to poor microfinance clients.

TATA-AIG Life Insurance Company Ltd., Mumbai

(from Vineet Sinha, Centre for Micro Finance, Chennai and Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai; response 1)

Peninsula Towers, 6th floor, Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai – 400013, Tel: 1-800-11-9966; info@tata-aig.com;

Collaborating with NGO-MFIs and SHGs to deliver micro insurance products and advisory services to the low-income socio-economic strata in the rural India.

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (response 1))

Financial Deepening Challenge Fund, United Kingdom

Enterplan, 1 Northfield Road, Reading, RG1 8AH, UK; Tel: 44-0-118-956-6066; Fax: 44-0-118-957-6066; jmr@enterplan.co.uk; <http://www.financialdeepening.org/default.asp?id=656&ver=1>

Works with various private sector organisations to fund projects that develop and pilot various financial products including micro insurance for poor and isolated communities.

Megatop Insurance Services Limited, Kolkata

Virginia House, 37 J. L. Nehru Road, Kolkata – 700071, West Bengal; Tel: 91-33-22889371; <http://www.financialdeepening.org/default.asp?id=681&ver=1>

Associate company of the Indian Tobacco Company Ltd., creating awareness about insurance and providing insurance services to farmers at their doorsteps through its e-choupals programme.

Reliance Life Insurance Company

Reliance Life Insurance Company Limited, Corp. Office: Midas, Sahar Plaza, Andheri Kurla Road, Andheri (E), Mumbai – 400 059, Tel: +91-22-3088 3444; Fax: +91-22-3088 6587; service@relianceada.com
<http://www.financialdeepening.org/default.asp?id=680&ver=1>

Formerly known as AMP-Sanmar, the private insurance company providing affordable and tailor-made life insurance and pension products to the target poor in Andhra Pradesh.

BASIX, Hyderabad

(from Vigyan Vikram Singh)

5-1-664, 665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad – 500001, Andhra Pradesh; Tel: 91-40-30512500/1; Fax: 91-40-30512502; info@basixindia.com; <http://www.basixindia.com/insurance.asp>

Livelihood finance institution delivers various micro insurance services (life, livestock, health, weather) to the economically active rural and urban poor.

(from Sayed Imtiaz Ahmed, Centre for Insurance and Risk Management (CIRM), Institute for Financial Management and Research, Chennai)

Shri Kshethra Dharmasthala Rural Development Project, Karnataka

Temple Premises, Dharmasthala, Belthangady Taluk – 574216, South Canara District, Karnataka; Tel: 91-825-317215/186; Fax: 91-825-317215; lhmskdrdp@vasnet.co.in

Charitable trust providing health insurance to its SHG members, employees of the trust and institutions promoted by the temple trust.

Manipal Association of Higher Education, Manipal

Kasturba Medical College Hospital, Manipal – 576104, Karnataka; Tel: 91-820-2570201; Fax: 91-820-2571934; <http://www.manipal.edu/index.htm>

Manipal Academy of Higher Education Group in Karnataka is providing Manipal Health Card (MHC) under its comprehensive health benefit scheme.

Centre for Insurance and Risk Management (CIRM), Institute for Financial Management and Research, Chennai

8th Floor, Eastern Wing, Fountain Plaza Building, 31/2A, Pantheon Road, Egmore, Chennai – 600008, Tamil Nadu; <http://www.ifmr.ac.in/cirm/cirm.html>

Involved in product development, training, dissemination and advocacy in the field of micro insurance services for the poor.

KAS Foundation, Orissa

A-58, Saheed Nagar, Bhubaneswar, Orissa; <http://www.ifmr.ac.in/html/cmfrpartner.php>

Delivers micro insurance services to its microfinance clients under the Rural Health Policy, Cattle Insurance, and Social Security Fund of ICICI Lombard.

MART, New Delhi

(from M. V. Raman, Java Softech Pvt. Ltd., Hyderabad)

A-108, 2nd Floor, New Friends Colony, New Delhi – 110065, Tel: 91-11-26926527; Fax: 91-11-26926943; mart@airtelbroadband.in; <http://www.martrural.com/knowledge.htm>

A marketing and research team, which conducts rural market research such as micro insurance in rural areas

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad)

Cooperative Development Foundation (CDF), Hyderabad

H. No. 3-5-43/B, Opposite Jagruti College, Ramkote, Hyderabad – 500001, Andhra Pradesh; Tel: 91-40-2475-0327; Fax: 91-40-2475-0327; info@sahavisaka.coop; <http://sahavikasa.coop/thrift.htm>

CDF delivers its two insurance products, Abhaya Nidhi and insurance covering accidents through its Thrift Cooperatives under the Andhra Pradesh Mutually Aided Cooperative Societies Act of 1995.

Society for Elimination of Rural Poverty (SERP), Hyderabad

4th Floor, Hermitage Office Complex, Door No.5-10-192, Hill Fort Road, Hyderabad – 500004, Tel: 91-40-23298981; Fax: 91-40-23211848; http://www.velugu.org/What_Velugu/what_velugu.html?id=0

Implementing the World Bank supported five year Andhra Pradesh District Poverty Initiatives Project, which includes cattle and life insurance schemes administered by SHGs.

Recommended Documentation

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (response 1))

Global Review of Insurance Models and Best and Good Practices: Evidence from 14 Countries

By Swainson, Jeremy and Ramesh S. Arunachalam; Internal Working Paper, Enterplan FDCF, UK; 2006

To avail of a copy contact Ramesh S Arunachalam
Working paper consisting of best and good practices in the field of micro insurance services in 14 countries and provides an overview of global insurance schemes.

Progress of Funded Projects: November 2006

DFID and Financial Deepening Challenge Fund; 2006
<http://www.financialdeepening.org/data/documents/Megatop.pdf>

Project document on Megatop Insurance Services Ltd., outlines the objectives, specific activities, progress, and services offered like life and general insurance through e-choupal.

<http://www.financialdeepening.org/data/documents/AMP.pdf>

Project document on Reliance Insurance Company (formerly ANP Sanmar Assurance Company), it outlines the objectives, specific activities, progress achieved, and services offered.

(from Sayed Imtiaz Ahmed, Centre for Insurance and Risk Management, Institute for Financial Management and Research, Chennai)

India: An Inventory of Micro Insurance Schemes

ILO/STEP, SRO for South Asia, Working Paper No. 2, International Labour Office, Geneva; 2005
<http://www3.ilo.org/public/english/protection/socsec/step/download/831p1.pdf>

Study identifies the ownership, age, geographical outreach and nature of services of micro insurance schemes operating in India, including agencies involved in delivery.

Sampoorna Suraksha Insurance Programme: Dharmasthala Experience

By Sayed Imtiaz Ahmed; Centre for Insurance and Risk Management (CIRM), Chennai; February 2007
http://www.ifmr.ac.in/cirm/images/ILO_%20Presentation.pps#34

Powerpoint presentation gives details on the Sampoorna Suraksha insurance scheme implemented by ICICI Lombard to provide complete health cover including pre-existing diseases, to the poor.

Guidelines on Licensing of Corporate Agents, IRDA, July 2005

<http://www.irdaindia.org/guidelines/caguide.pdf>
Guidelines issued by the IRDA to control the distribution of insurance services by NGOs, CBOs and Cooperatives.

Institute for Financial Management and Research: Centre for Insurance and Risk Management

<http://www.ifmr.ac.in/pdf/CIRMBrochure.pdf>
Report on the Centre, setup as a sectoral infrastructure support system focusing on building product development capabilities for insurance and other risk mitigating instruments.

The Changing Face of Insurance

(from L. B. Prakash, Akshara, Hyderabad)

By Jayant Pai; Rediff News; April 2007
<http://www.rediff.com/money/2007/apr/03insure.htm>

Article offers an opinion on a recent judgement of the Bombay High Court, which stated that trading in insurance policies is permissible.

Time to Mainstream Micro-Pensions in India

(from Mukul G. Asher, University of Singapore, Singapore)

By Mukul Asher and Savita Shankar; April 2007
<http://www.solutionexchange-un.net.in/mf/cr/res03040701.doc>

Paper explains how formal financial institutions have leveraged on MFI delivery channels to meet pension needs of the poor in India.

Compilation of Insurance Schemes Available with the Four Nationalised Insurance Companies in India Suitable to Poor Families

(from A. K. Upadhyay, Oriental Insurance Company Ltd., New Delhi)

Friends of Women's World Banking; April 2001
<http://www.solutionexchange-un.net.in/mf/cr/res03040702.doc>

Contains a description of the insurance schemes currently available with the four Indian nationalised insurance companies including a package scheme for cooperative societies.

(from Vikash Kumar, Grameen Koota, Bangalore)

Protecting the Poor: A Micro Insurance Compendium

By Craig Churchill; International Labour Organisation; 2006

<http://www.ilo.org/public/english/support/publ/xttextmicr.htm>

Compiles lessons on micro insurance to low-income clients including institutional models for delivery, product design, marketing, premium collection and governance.

Micro Insurance and Microfinance Institutions: Evidence from India

By James Roth, Craig Churchill, Gabriele Ramm and Namerta; CGAP Working Group on Micro Insurance: Good and Bad Practices, Case Study No. 15, Washington D.C.; September 2005
www.ilo.org/public/english/employment/finance/download/cstudy15.pdf

Analyses the delivery of micro insurance by three MFIs in India and provides some lessons on the design of products and delivery models.

(from Sumeeta Banerji, Resource Person)

Access to Insurance for the Poor

By Vijay Kalakavonda; Access Finance, The World Bank Group, Issue No. 13; August 2006
<http://rru.worldbank.org/Documents/PapersLinks/Microinsurance/AccessFinanceAug2006.pdf>

Article provides details of the 'society for elimination of rural poverty' model for insurance provision through CBOs – the challenges and success factors.

Paper for Conference on “New Frontiers in Indian Insurance-Rural Insurance”

By D. Sattaiah and P. S. Gunaranjan; Conference New Frontiers in Indian Insurance-Rural Insurance, Mumbai; January 2005

<http://www.basixindia.com/paper.asp>

Paper discusses challenges and opportunities for partnership between public and private institutions to expand the reach and depth of rural insurance market in India.

Maximising Access to Insurance for the Poor

By Bindu Ananth; ICICI Bank; October 2003
<http://www.ficci.com/media-room/speeches-presentations/2003/oct/oct15-insurance-binduananth.ppt#9>

Powerpoint presentation shares new approaches and distribution channels in the provision of micro insurance through partnerships between NGOs, banks and insurers.

Study of the Utilisation Pattern of Hospital-Based Health Insurance Plan Targeted towards Lower Socio-Economic Group

By V. P. Bhaskaran, Satyashankar P. and Rajendra P. Patankar; Journal of the Academy of Hospital Administration, Vol. 16, No. 1; 2004
<http://www.indmedica.com/journals.php?journalid=6&issueid=25&articleid=229&action=article>

Study examines salient features of the Manipal Health Card, a type of insurance plan, provided under the comprehensive health benefit scheme of Manipal Academy of Higher Education Group.

Third Annual Report: KAS Foundation, 2005-2006

KAS Foundation; March 2006
http://ifmr.ac.in/cmfw/wp-content/uploads/2006/KAS-2006-Annual_Report.pdf

Report provides details on the cattle insurance scheme for dairy groups provided by ICICI Lombard in partnership with the KAS Foundation, Orissa.

Recommended Portals and Information Bases

(from Vikash Kumar, Grameen Koota, Bangalore)

The Micro Insurance Centre

<http://www.microinsurancecentre.org>

Centre's website provides case studies on micro insurance providers and country studies assessing the potential for successful use of micro insurance.

The Microfinance Gateway

<http://www.microfinancegateway.org/microinsurance>

Online resource centre promotes sound practices in insurance provision through the exchange of knowledge and experiences from the microfinance sector.

Inventories of Micro Insurance Schemes

(from Sumeeta Banerji, Resource Person)

<http://www.ilo.org/public/english/protection/secsoc/step/research/inventaires.htm>

Online resource centre listing studies and inventories in Asia and Africa, mainly on the analysis of micro insurance schemes.

Recommended Contact and Expert

Dr. G. Gandhi, Faculty, National Insurance Academy (NIA), Pune

(from Vikash Kumar, Grameen Koota, Bangalore)

25, Balewadi, Baner Road, NIA PO, Pune – 411045, Maharashtra; Tel: 91-20-27204000/444; Fax: 91-20-27292396/04555; dragg@niapune.com

Contact for recent developments in micro insurance, NIA work includes design and development of products in rural insurance, micro insurance, personal lines insurance, and agriculture insurance.



Consolidated Reply

Query: Alternative Micro Insurance Products and Delivery Mechanisms – Experiences

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issued Date: 30 May, 2007

From Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai

Posted 9 May, 2007

Dear members,

Micro insurance, as a financial service, has witnessed burgeoning growth in the last couple of years in many parts of the world. As this area develops, to facilitate further and effective growth of micro insurance as a viable financial service for the poor, it seems important to compile lessons, best practices, success factors and strategies and other such learning from the field with regard to product design, distribution, and delivery aspects.

I am involved in a Study on Micro Insurance for Low Income People in India for a leading international NGO, CARE India, Tamil Nadu. The study will focus on several aspects of micro insurance. I am seeking help of network members in addressing some of these issues which will help us while compiling the study:

- What alternative products and distribution mechanisms exist for clients living at the Bottom of the Pyramid (BoP)?
- What lessons and best practices can be discerned with regard to use of these alternative products and delivery mechanisms (like agency, broker and/or other approaches)?
- In what contexts have these products and distribution mechanisms been implemented successfully and what are the critical factors that have contributed to successful implementation?
- Can technology be used to reduce transactions/ other costs, enhance post sales service, reduce internal control and other risks while delivering and distributing insurance products? If so, what

specific technologies are available, what do they cost and how can they be deployed?

- What regulatory factors enable greater access of insurance services to BoP clients through alternative delivery channels and what regulatory factors impede access?

I would be grateful if members can respond on this and extend their support to me and my colleague Dev Prakash from CARE India, Tamil Nadu.

Responses were received, with thanks, from

1. Valérie Schmitt-Diabaté, ILO/STEP Programme, Global Information on Micro Insurance (GIMI), Geneva, Switzerland
2. Gurusamy Gandhi, National Insurance Academy, Pune
3. A. Madhan Kumar, DHAN Foundation, Madurai
4. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai
5. Subhransu Tripathy, Entrepreneurship Development Institute of India, Gandhinagar (Response 1, Response 2)
6. Sachin Kumar, MicroSave, Lucknow
7. Kris Dev, Transparency and Accountability Network, Chennai
8. G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad

Further contributions are welcome!

Summary of Responses

Responding to a query seeking inputs for a study on “Micro Insurance for Low Income People in India”, members shared a wealth of resources, experiences and views on the micro insurance regulatory landscape, along with providing information on various delivery mechanisms and technologies that micro insurance providers are using to improve operations and reduce costs. They also pointed out that insurance is a business of “spreading the risks” over a population and holds in trust a huge collection of peoples' money, making an institution's financial viability a critical aspect of success.

To popularise micro insurance and improve its outreach to the poor, respondents recommended that the providers should collaborate with MFIs to serve as partner-agents for distribution. Further, they suggested Public Sector Undertaking (PSU) companies, which desperately need partners to distribute products to the poor, could collaborate with NGOs and MFIs. PSUs can build their capabilities by training their staff on micro insurance and risk management, and forming self-regulated schemes on the lines of “mutuality insurance” based on MFI experiences and lessons of micro insurance provision to their already clustered/federated SHG members.

The most common method for providing micro insurance is through MFIs, members pointed out. MFIs offer insurance to their clients, however, their clients require more than just protection for themselves; they need it for their assets also (livestock, housing, etc.), thus respondents suggested MFIs consider offering “equity linked insurance schemes” along with credit-linked schemes. Moreover, MFIs need to diversify their products based on a demand-driven group insurance model and employ a broad risk reduction strategy using insurance, risk diversification and risk mitigation to help meet the insurance needs of vulnerable poor populations.

Along with MFIs, members mentioned community based distribution mechanisms. Noting that in general, community managed insurance products are more responsive to the needs of the poor, discussants shared a mutual insurance initiative in Tamil Nadu, that delivers a comprehensive social security model and sensitises formal insurance companies to the insurance needs of the poor and a successful community-based health insurance scheme being offered in several

states. Additional research also highlighted learnings from a micro insurance agent delivery model providing micro insurance to the poor.

Another supply-side challenge discussed was achieving scale and reach. The claims of low-income communities tend to exceed the premium amount, thus achieving a significant operational scale would help reduce transaction costs. Respondents recommended working with the 150,000 Post Offices and over 1 lakh Primary Agriculture Cooperative Societies (PACS) across the country to bring micro insurance delivery to scale and cited an example from Karnataka where scaling up delivery benefited the rich as well as the poor.

Micro insurance has grown significantly in recent years and additional research documented lessons learned and best practices in micro insurance delivery. One study from Gujarat explored the insurance services of provider offering life, accident, health and asset insurance and revealed that while it was harder to manage and achieve viability in the short term, the organisation is likely to achieve a long term impact on the lives of its clients. Research also highlighted a case study from one of the largest insurance programmes in Andhra Pradesh and an innovative weather insurance product. Drawing from the lessons learned in delivering micro insurance products, members recommended micro insurance initiatives:

- Collect premiums effectively through an established system of collecting dues/savings.
- Conduct a complete baseline or collecting secondary data on mortality rates for low income people.
- Make deposits in a common savings account on a fixed date, so the growth of profit could gradually give advantage for an institution to offer life cycle risks, livelihood risks and emergency risks.
- Provide adequate information to the end user, because without proper education, clients often do not understand the procedures and have difficulty appreciating the long-term benefits of insurance.

Responding to the request for information on technologies, discussants gave examples of tools that reduced transaction costs and enhanced operational efficiency of micro insurance interventions. They pointed to two software programmes- the Micro-Assurance Scheme/MAS Gestion, which focuses on the technical management of community-based schemes

and MAS Pilote that monitors operations, and also mentioned Biometric debit cards as a technological means for making transactions efficient and reducing potential delivery costs.

The query also sought views and information on regulatory factors that enable greater access to insurance services through alternative delivery channels. Members regulatory supervision is essential to ensure transparent “bookings of business” and some contended that since the “Micro Insurance Regulation” has been enacted for almost two years, it might be a good time to review the performance of the major micro insurance providers against the established priority sector targets. Additionally, there is a need to clarify the Regulation’s definition of “rural,” “social sector,” “weaker sections” and “backward class population” to help insurance providers meet the targets. Further, respondents cited the importance of having regulatory norms - like “solvency margins,” “adequate reserves” and “provisions for unexpired risks” and other liquidity concerns - in order for micro insurance provision to be sustainable and meet the needs of its client, especially during major disasters. They also mentioned that ILO recently created an online workspace for micro insurance practitioners to participate in defining an adapted legislative framework for community-based social protection mechanisms in India. Additional research also reflects the work that has been done to identify regulatory factors that can enable or hinder access to micro insurance services.

Overall, members agreed that regulators play an important role in enhancing access to poor clients by enabling partnerships between insurance companies and NGO/MFIs, so that SHGs can serve as micro insurance agent partners.

Finally, respondents listed several resources, like a free access library with several case studies on existing micro insurance schemes in India and globally and a platform, which seeks to foster exchange and interaction between professionals in the micro insurance sector.

In conclusion, members noted that while the current product choices are limited compared to the insurance needs of the poor, a wide variety of delivery channels are being used to deliver micro insurance services and stressed the use of technology to improve delivery of services to meet the insurance needs of the poor.

Comparative Experiences

Tamil Nadu

Delivering Social Security through People Mutuals

(from A. Madhan Kumar, DHAN Foundation, Madurai)

The People Mutuals initiative provides social security to peoples’ organisations promoted by Dhan Foundation such as SHG Federations, Tank Farmers Associations, and the Dry Land Farmers Associations. Provision of comprehensive social security is ensured through Dhan Foundation’s own products or linkages to government schemes and formal insurance companies. People Mutuals now also sensitise officials of insurance companies to develop suitable products for the poor.

(from Anjum Khalidi, Research Associate)

Andhra Pradesh

Community-based Model to Deliver Micro Insurance

The Indira Kranti Patham pilot programme, one of the world’s largest micro insurance initiatives, provides life insurance to over one million poor women. The project, funded by the World Bank and the Andhra Pradesh state government, uses a CBO to help the rural poor expand their asset base and mitigate risk. Project managers found that the poor are willing to enroll in and pay for an insurance programme, once they have complete information on the range of product choices.

Gujarat

Learnings from VimoSEWA Delivering Micro Insurance

The experience of SEWA’s VimoSEWA insurance programme has shown that members need much more than credit-linked insurance, and therefore the programme offers life, accident, health, and asset insurance to all its members, whether or not they have a loan. Though VimoSEWA’s alternative delivery model is harder to manage and takes longer to achieve viability, the model is found to be most likely to achieve greater long-run impact in the lives of its members.

Multiple States

Insuring Affordable Healthcare – Arogya Raksha Yojana

(from A. Madhan Kumar, DHAN Foundation, Madurai)

The Biocon Foundation and Narayana Hrudayalaya launched Arogya Raksha Yojana (ARY), in collaboration with ICICI Lombard. ARY provides the coverage to

its clients for critical illnesses and surgeries, also entitling them to free/subsidised medical exams, low cost medicines, and free outpatient services. The facility is available for Rs. 120/year/individual. Thus far, 56,400 lives have been covered, majority under the age of 20.

Weather Insurance Product Developed by BASIX Collaborations

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad)

BASIX and ICICI Lombard, with technical assistance from the World Bank's Commodity Risk Management Group (CRMG) piloted a weather insurance scheme to 230 farmers in the Mahabubnagar district during the monsoon in 2003. Within three years, BASIX had sold 7,685 policies to 6,703 customers in 36 locations in six states during the monsoon season. The product's success was explicitly mentioned in the 2004-05 Government of India budget and has been widely replicated.

(from Anjum Khalidi, Research Associate)

Delivering Micro Insurance through MicroAgents

When Tata-AIG entered into the micro insurance delivery business, they realised low-cost distribution would be critical. Tata-AIG developed a new model, built around micro-agents who engage in direct marketing. Local NGOs are involved in the marketing and in exchange for their assistance, receive a new income stream. From March 2002 to June 2005, Tata-AIG sold 34,200 life insurance policies, of which more than half went to poor women.

Life Insurance Corporation (LIC) Using Micro Insurance Agents Delivery Mechanism

The company 3i Infotech developed a micro insurance agent software for LIC allowing their agents to completely manage their micro insurance portfolio, facilitating information exchange with LIC's system through a desktop-based application. Now 10,000 LIC agents, SHGs and MFIs across India will have access to the application as part of LIC's effort to issue one crore policies, over the next two to three years, to empower the rural and semi-urban poor to financially protect themselves.

Related Resources

Recommended Organisations

Citigroup Microfinance Group, Mumbai

(from Kris Dev, Transparency and Accountability Network, Chennai)

7th Floor, C-61, Bandra Kurla Complex, G Block, Bandra (E), Mumbai – 400051, Maharashtra; Tel: 91-22-4001-5757; <http://www.citigroup.com/citigroup/press/2006/061201d.htm>

Citibank has piloted the biometric card for expanding outreach and reducing transaction costs of MFIs, and can be adopted for more efficient micro insurance delivery.

(from A. Madhan Kumar, DHAN Foundation, Madurai)

Arogya Raksha Yojana Trust, Bangalore

Hoskur Village, Off 20th KM, Hosur Road, Bangalore – 560100, Karnataka; Tel: 91-080-2808-2175; Fax: 91-080-27832623; <http://www.arogyarakshayojana.org/>

18, Pilliyar Koil Street, S.S.Colony, Madurai, Tamil Nadu – 625016, Tel: 0452-261-0794/0805; Fax: 0452-260 2247; <http://www.indianngos.com/d/dhanfoudation/peoplemutuals.htm>

Foundation provides a wide range of insurance products by linking its SHG Federations to insurance companies and also offers social security through its People Mutuals initiative.

BASIX, Hyderabad

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad)

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad – 500001, Andhra Pradesh; Tel: 91-040-30512500/1; Fax: 91-040-30512502; <http://www.basixindia.com/insurance.asp>

Livelihood promotion institution providing livelihood finance (credit, micro insurance and savings), and offers several innovative insurance products through innovative public-private partnerships

Global Information on Micro Insurance (GIMI), Switzerland

(from Valérie Schmitt-Diabaté)

4, Route des Morillons, CH-1211 Geneva 22, Switzerland; Tel: 41-22-799-65-44; Fax: 41-22-799-66-44; <http://www.ilo.org/gimi/ShowMainPage.do>

ILO-STEP platform on micro insurance, GIMI provides technical assistance and information, builds knowledge and capacities, and fosters collaboration between stakeholders

Centre for Insurance and Risk Management (CIRM), Chennai

(from Anjum Khalidi, Research Associate)

8th Floor, Eastern Wing, Fountain Plaza Building, 31/2A, Pantheon Road, Egmore, Chennai-600008, Tamil Nadu; <http://www.ifmr.ac.in/cirm/cirm.html>

Involved in micro insurance product development, through public/private partnerships, including comprehensive health insurance, AIDS healthcare insurance, flood insurance, and micro-pensions.

Recommended Tools and Technologies

International Labour Organization Software Programmes for Micro Insurance Service Providers

(from Valérie Schmitt-Diabaté, ILO/STEP Programme, Global Information on Micro Insurance (GIMI), Geneva, Switzerland)

<http://www.ilo.org/gimi/ShowLogiGestion.do>

ILO-STEP Programme's GIMI Team developed the Micro-Assurance Scheme/MAS Gestion free software for technical management and MAS Pilote for monitoring micro insurance schemes.

Recommended Documentation

Sustainable Microfinance for Women's Empowerment

(from Sachin Kumar, Microsave, Lucknow and Kris Dev, Transparency and Accountability Network, Chennai)

By Linda Mayoux; Institute for Financial Management and Research (IFMR) Newsletter; October 2006

<http://www.genfinance.info/Chennai/IFMRarticle.pdf>

Cites the product innovations developed by various MFIs and organisations in India including micro insurance for assets and use of biometric cards.

Use of Technology for Micro Insurance Distribution: Experiences from the Field

(from Kris Dev, Transparency and Accountability Network, Chennai)

Sa-dhan Newsletter on Microfinance and Technology, Vol. 7, Issue 1; September 2006

<http://www.sa-dhan.net/Adls/Microfinance/Vol/Vol-7Issue1Sept2006.pdf>

Article looks at micro insurance within microfinance delivery and provides examples of how technology

has been used to reduce delivery costs, enhance access, and improve services.

Financial Risk Management Tools for the Poor

(from Sachin Kumar, Microsave, Lucknow)

By Monique Cohen and Michael J. McCord; Micro Insurance Centre Briefing Note No. 6

Discusses the range of risks faced by the poor and various micro insurance products/models used globally to reduce their risk, and how to partner with MFIs to deliver micro insurance efficiently.

Scaling-Up Micro Insurance: The Case of Weather Insurance for Smallholders in India

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad)

By Ornsaran Pomme Manuamorn; World Bank; October 2005

http://www.basixindia.com/BASIX%20Scale%20Oup%20Paper_Conference%20Edition%20Final.doc

Study serves as a weather insurance implementation guide, which could be transferred and replicated by other institutions interested in offering alternative insurance products.

Insurance Regulatory and Development Authority (IRDA) Micro Insurance Regulation 2005

(from Gurusamy Gandhi, National Insurance Academy, Pune)

The Gazette of India, Hyderabad; November 10, 2005

http://www.irdaindia.org/regulations/IRDA-Mirco-Ins_reg-2005.pdf

Full legislation outlining the governance regulations for micro insurance schemes and delivery mechanisms in India.

(from Valérie Schmitt-Diabaté, ILO/STEP Programme, Global Information on Micro Insurance (GIMI), Geneva, Switzerland)

Combining Micro Insurance and New Technologies to Protect the Poor

ILO Communication and Public Information Unit, Press Release; April 5, 2007

Global examples of how various technologies (i.e. smart cards, barcode systems, Internet) have helped micro insurance providers expand outreach, reduce costs, and provide better products.

Community-based Schemes in India: An Inventory of Micro Insurance Schemes

Working Paper No. 2, ILO, Geneva; 2005
<http://www3.ilo.org/public/english/protection/socsec/step/download/831p1.pdf>

Identifies the various micro insurance schemes operating in India as of 2005, and serves as a preliminary version of the internet database – the Asian Micro Insurance Network (AMIN).

Lessons Learnt the Hard Way

(from Sumeeta Banerji, Resource Person)

Good and Bad Practices Case Study 6, CGAP Working Group on Micro Insurance; January 2005
http://microfinancegateway.org/files/24121_file_Worst_Practices_Good_and_Bad_Case_Study_No_6.pdf

Documents the challenges faced by various micro insurance providers, and creates a framework of the insurer's vulnerabilities with real-life examples of nine anonymous companies.

(from Anjum Khalidi, Research Associate)

Access to Insurance for the Poor: The Case of Indira Kranti Patham in Andhra Pradesh

By Vijay Kalavakonda; AccessFinance Newsletter, Issue 13, World Bank, Washington, D.C.; August 2006
<http://rru.worldbank.org/Documents/PapersLinks/Microinsurance/AccessFinanceAug2006.pdf>

Article describes Indira Kranti Patham's micro insurance delivery structure and lists key success factors, including the use of communities to manage the product and build trust among members.

TATA-AIG Life Insurance Company Ltd., India

By James Roth and Vijay Athreye; Consultative Group to Assist the Poor (CGAP) Working Group on Micro Insurance Good and Bad Practices, Case Study No. 14; September 2005

Case study details TATA-AIG's experience with the micro agents model to deliver micro insurance, and the challenges faced and lessons learned.

VimoSEWA India

By Denis Garand; Consultative Group to Assist the Poor (CGAP) Working Group on Micro insurance Good and Bad Practices Case Study No. 16; October 2005
http://www.microfinancegateway.com/files/28653_file_VimoSEWA_English.pdf

Case study covers the evolution of SEWA's VimoSEWA since it developed a business plan, its impact

and its experience in delivering micro insurance following the 2001 Gujarat earthquake.

Regulation and Supervision of Micro Insurance

By Martina Wiedmaier-Pfister; Federal Ministry for Economic Cooperation and Development; August 2004
http://www.yearofmicrocredit.org/docs/Microinsurance_Regulation.pdf

Provides recommendations for improving the regulatory landscape for micro insurance and explores the constraints on micro insurance delivery in the existing regulatory framework.

Life Insurance Corporation (LIC) to E-Enable Micro Insurance Agents

CXO Today, Mumbai; April 7, 2007
http://www.cxotoday.com/India/News/LIC_To_e-enable_Micro_Insurance_Agents/551-80272-912.html

Article details the partnership between LIC and 3i Infotech to implement a micro insurance agent software for micro insurance providers to streamline operations and expand outreach.

Recommended Portals and Information Bases

(from Valérie Schmitt-Diabaté, ILO/STEP Programme, Global Information on Micro Insurance (GIMI), Geneva, Switzerland)

International Labour Organization Micro Insurance Online Library

<http://www.ilo.org/gimi/ShowBibliotheque.do>
Developed by Global Information on micro insurance, it contains various resources on micro insurance such as articles, websites, guides, studies, and softwares.

Global Information on Micro Insurance (GIMI) Legislation Project

<http://www.ilo.org/gimi/ResShowLegislationProjectRessource.do?keywordsId=250>

Working space to participate in discussing the definition of an adapted legislative framework for community-based social protection mechanisms in India, includes micro insurance resources.

Asian Micro Insurance Network (AMIN)

<http://www.amin-net.org>
Regional network of micro insurance practitioners organised in collaboration with the ILO-STEP programme to document the ongoing micro insurance initiatives and highlight relevant issues.

The Microfinance Gateway: Micro Insurance Focus Resource Centre

(from Anjum Khalidi, Research Associate)

http://microfinancegateway.org/resource_centres/insurance/

CGAP Working Group on Insurance manages the site, highlighting sound practices in insurance provision by exchanging knowledge/experiences, through case studies, reports, articles, and tools.

Related Past Consolidated Replies

Delivery of Micro Insurance Services, from Ajaya Mohapatra, We The People, New Delhi (Experiences)

Issued 25 April, 2007

Provides case studies and models for distribution channels of micro insurance and key lessons for efficient implementation of micro insurance schemes.



Consolidated Reply

Query: Disaster Risk Insurance for Vulnerable Communities – Experiences and Examples

Compiled by Sumeeta Banerji and G. Padmanabhan, Resource Persons and Anjum Khalidi and Nupur Arora, Research Associates

Issue Date: 20 August, 2007

From Thiagu Ranganathan, Centre for Insurance and Risk Management, Institute for Financial Management Research, Chennai

Posted 25 July, 2007

Dear Colleagues,

I work with CIRM, Chennai. We are a research and product development centre involved in developing Risk Hedging Instruments for Vulnerable Communities.

One of the things observed during disasters is that Governments mostly act in reactive manner through relief measures. Public financing may always not be sufficient to recover the losses caused due to catastrophes and the dependency on donors increases due to this. Therefore, substantial amount of risk needs to be exported out from the local context.

In David Hoffman and Patricia Brukoff's paper "Insuring Public Finances Against Natural Disasters – A Survey of Options and Recent Initiatives", international examples from Caribbean and Mexico are shared on how the Government has used such formal financial risk hedging mechanisms to deal with catastrophic risks.

In India, certain initiatives have been taken in selected pockets by various NGOs and trusts. Government also introduced crop insurance and insurance of houses built after disasters such as Gujarat Earthquake and Indian Ocean tsunami.

I would like members to kindly share:

- Experiences, including challenges faced in dealing with risk transfer mechanisms, especially insurance. Case studies on crop insurance or other forms of insurance would be appreciated.
- Examples of disaster insurance schemes from India and outside.
- Insights on developing appropriate and valuable risk hedging mechanisms (long term risk hedging) in Indian context.

Your feedback will help us in developing insurance products for Government, NGOs, multilateral and other stakeholders who would use formal catastrophic insurance mechanisms as a preventive mechanism to deal with disasters.

Responses were received, with thanks, from

1. Milton Sastry, CONSIDER, Bapatla
2. Shaik Abdul Sattar, CARE India, Nellore
3. Irene Stephen, UNDP, New Delhi
4. Kalika Mohapatra, UNDP, Orissa
5. P. Uday Shankar, Microfinance Consultant and Trainer, Coimbatore
6. Krishna S. Vatsa, UNDP, Philippines
7. Amit Sharma, International Federation of Red Cross and Red Crescent Societies (IFRC), New Delhi
8. R. Devaprakash, CARE India, Chennai
9. Manab Chakraborty, Mimo Finance, Dehradun

Further contributions are welcome!

Summary of Responses

Responding to a query on providing disaster risk insurance to vulnerable communities, members responded with examples of disaster insurance schemes being offered both in India and internationally, in addition to sharing their experiences and identifying challenges in providing risk transfer mechanisms.

Members emphasised that designing a successful and viable programme for post-disaster settings requires considerable expertise in risk and financial management. Participants shared several examples of disaster risk insurance programmes like the CARE Tsunami Relief Programme (TRP) which provides micro insurance through a tie up with Royal Sundaram Alliance Pvt. Ltd, and delivery through partner NGOs. Their experience shows that the payments and claims settlement systems have been working well and people have begun to demand disaster and other insurance services. The low-premium, community-oriented insurance products were designed in cooperation with the CARE team, community leaders, Royal Sundaram and CARE's partner NGOs, and cover life, non-life, health and livestock.

Members highlighted another example of a successful disaster insurance scheme promoted by the Government of Assam which launched an insurance scheme in the year 2005-06 called Mukhya Mantri Jiban Joyti Bima Achni for health and accident risk, for the entire state population, covering floods, earthquakes, landslides, rock slides, lightning,

cloud burst, fire accidents and explosion, firing, riots and animal bites in partnership with ICICI Lombard General Insurance Company Ltd.

Participants shared other examples in India which include VimoSEWA, an activity of SEWA a MFI, which began offering health, property, and life insurance with disaster risk cover, after it realised that members needed more than just credit insurance. Working Women's Forum (WWF) is another example offering insurance for life, accident, disability and health in partnership with LIC and Royal Sundaram. Other examples of insurance schemes designed to cover some disaster risks include schemes from All India Disaster Mitigation Institute (AIDMI), Dhan Foundation and Indian Farmers Fertiliser Co-operative Limited (IFFCO). Additionally, the Gujarat Government has special insurance for the weaker sections. The Raja Rajeshwari Mahila Kalyan Yojana (RRMKY), now discontinued, was another good micro insurance scheme covering disaster risks also.

In Bangladesh, members highlighted the NGO Proshika which has introduced group based insurance that draws its premiums from savings of members and pays twice the amount of the savings deposit in case of property damage due to disasters, while savings stay intact. In Nepal, the Centre for Self-Help Development provides disaster micro insurance to female members and their husbands under a community-based scheme covering death and property loss.

Members also pointed to several international examples of insurance policies that one can learn from, such as the American National Flood Insurance Policy which demonstrates how government support and enforcement can make disaster insurance policies successful. Local governments in the US adopt and enforce floodplain management measures to protect new construction from flood damage. In return for the reduction of flood risks, flood insurance becomes available for the entire community. In Turkey, after the earthquake in 1999, an insurance pool was set up with help from the Government to institutionalise disaster mitigation policies. In France, private insurance is offered with state-prescribed loading for catastrophes. This loading in turn finances the re-insurance compensation. In Spain, insurance is provided by a public law fund where private insurance acts as fronting for the public fund. In Switzerland, citizens avail private insurance where 85 percent of loss is recovered from a pool in which all insurers participate.

Additional research provides information on disaster risk reduction mechanisms such as risk hedging which can assist governments in developing countries to finance recovery efforts. Members offered their views on issues which should be considered by MFIs taking up disaster risk insurance programmes, such as institutional problems of risk financing including liquidity, delivery management, product/service designing and estimates of risks, affordability of insurance for the poor and trust of stakeholders in the system, etc.

Members debated the issue of institutional arrangements for administering insurance and the role of Government. They elaborated that if a programme is privately run, then outreach to extremely vulnerable groups may be limited, whereas if insurance is provided by NGOs, then actuarial expertise may be limited. Also debated was the issue of transferring the disaster risk from the currently small pool of insurance participants to the larger financial systems. Members also discussed the ethical hazard in disaster risk insurance where participants do not take proper disaster prevention measures because insurance is available.

Suggested measures for extending the coverage of disaster risk insurance include adding a small levy to property tax by panchayats/municipalities/corporations to cover catastrophes, requiring housing insurance by all housing loan corporations and development authorities.

The discussions and experiences shared by community members illustrated the complexity in providing disaster risk insurance and highlighted the challenges of scale, sustainability and accountability.

Comparative Experiences

Gujarat

(from Amit Sharma, International Federation of Red Cross and Red Crescent Societies (IFRC), New Delhi)

Learnings from VimoSEWA Delivering Micro Insurance

The experience of VimoSEWA, SEWA's insurance programme, has shown that members need much more than credit-linked insurance, and therefore the programme offers life, accident, health, and asset insurance to all its members, whether or not they have a loan. Though VimoSEWA's alternative delivery model is harder to manage and takes longer to achieve viability, the model is found to be most likely to achieve greater long-run impact in the lives of its members.

Andhra Pradesh

Weather Insurance Product Developed by BASIX Collaborations

BASIX and ICICI Lombard, with technical assistance from the World Bank's Commodity Risk Management Group (CRMG) piloted a weather insurance scheme to 230 farmers in the Mahabubnagar district during the 2003 monsoon season. Within three years, BASIX had sold 7,685 policies to 6,703 customers in 36 locations in six states during the monsoon season. The product's success was explicitly mentioned in the 2004-05 Government of India budget and has been widely replicated.

Tamil Nadu

Partnering with Insurance Companies to Provide Insurance, Chennai

(from Milton Sastry, CONSIDER, Bapatla, Shaik Abdul Sattar, CARE India, Nellore and R. Devaprakash, CARE India, Chennai)

The CARE Tsunami Relief Programme (TRP) provides micro insurance through a tie up with Royal Sundaram Alliance Pvt. Ltd, through local partner NGOs. Successfully settling claims, the team's main challenge was to convert the members' need for risk insurance into demand for products. The low-premium, community-oriented insurance products cover life, non-life, health and livestock and particularly the effects of the Tsunami and Ogni floods in AP.

Assam

State Government Insurance Schemes

(from Kalika Mohapatra, UNDP, Orissa)

Mukhya Mantri Jiban Joyti Bima Achoni, an insurance scheme launched by the Government of Assam in the year 2005-06 covers health and accident risk for floods, earthquakes, landslides, rock slides, lightening, cloud burst, fire accidents and more. Partnering with ICICI Lombard General Insurance Company Ltd, the benefits of the insurance package include Rs. 50,000 in case of death, Rs. 25,000 for 50 percent injured and Rs. 12,500 for 25 percent injured due to accident.

India

(from P. Uday Shankar, Microfinance Consultant and Trainer, Coimbatore)

Working with Government Schemes to Provide Insurance

When the Raja Rajeshwari Mahila Kalyan Yojana

(RRMKY) was introduced in 2000, The Indian Association for Savings and Credit was one of the first works with RRMKY to develop an insurance scheme for accident risk for a premium of Rs. 66/- for the entire five year period which covered 18,000 members after six years. Though no longer available, the scheme was found most useful during the Tsunami disaster.

Housing Insurance

The Indian Association for Savings and Credit working with an insurance company to design an insurance programme including a one time payment of Rs 450/- as premium, allowing the women SHG members to avail a housing loan insuring against death due to accident of her husband or self, insuring the house against natural or man-made accident as well as compensation for loss of household articles. This scheme is yet to be implemented.

International

Post-earthquake Insurance Mechanisms, Turkey

(from Kalika Mohapatra, UNDP, Orissa)

After the earthquake in Turkey in 1999, an insurance pool was created through contributions made by the homeowners under a mandatory insurance scheme. Mechanism sought to assess actual losses after a catastrophe occurred. The ability of this scheme to indemnify the policyholders following a disaster would depend on the council's ability to spread its portfolio of risk throughout the international markets.

Related Resources

Recommended Documentation

(from Amit Sharma, International Federation of Red Cross and Red Crescent Societies (IFRC), New Delhi)

VimoSEWA India

By Denis Garand; Consultative Group to Assist the Poor (CGAP) Working Group on Micro Insurance Good and Bad Practices Case Study No. 16; October 2005 http://www.microfinancegateway.com/files/28653_file_VimoSEWA_English.pdf

Case study covers VimoSEWA's evolution, business plan, impact and its experience in delivering micro insurance following the 2001 Gujarat earthquake.

Scaling-Up Micro Insurance: The Case of Weather Insurance for Smallholders in India

By Omsaran Pomme Manuamorn; World Bank; October 2005

Study serves as a weather insurance implementation

guide, which could be transferred and replicated by other institutions interested in offering alternative insurance products.

Insuring Public Finances Against Natural Disasters – A Survey of Options and Recent Initiatives

(from Thiagu Ranganathan, Centre for Insurance and Risk Management, Institute for Financial Management Research, Chennai)

Working Paper; by Mr. David Hoffman and Mr. Patricia Brukoff,; International Monetary Fund; Washington D.C; August 2006

Available at <http://www.imf.org/external/pubs/ft/wp/2006/wp06199.pdf>

Paper lays international examples from Caribbean and Mexico on how the government has used formal financial risk hedging mechanisms to deal with catastrophic risks.

The Role of Government in Promoting Catastrophic Insurance: A Global Review

(from Krishna S. Vatsa, UNDP, Philippines)

Paper; by Mr. Krishna S. Vatsa; Ex Secretary, Rural Development Department, Government of Maharashtra; 26 November, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/res25070701.doc>

Paper was written for a workshop on Disaster and Insurance at National Insurance Academy, Pune. It highlights the Government's role in promoting risk insurance globally.

(from Anjum Khalidi, Research Associate)

Floods and Poverty Traps: Evidence from Bangladesh

Article; by Ms. Amrita Dasgupta; Economic and Political Weekly; July 28, 2007

Available at <http://www.epw.org.in/epw/uploads/articles/10862.pdf>

Article cites micro-flood insurance as a policy tool to mitigate the damaging effects of flooding. Author poses a simple model on how floods might affect poverty rates.

Disaster Insurance for the Poor? A Review of Micro Insurance for Natural Disaster Risks in Developing Countries

Study; by Reinhard Mechler and Joanne Linnerooth-Bayer with David Peppiatt. Published by ProVention and International Institute for Applied Systems

Analysis; July 2006; available at http://www.proventionconsortium.org/themes/default/pdfs/Microinsurance_study_July06.pdf

Discusses the benefits and limitations to disaster micro insurance, highlights various forms of micro insurance and models, and reviews disaster micro insurance schemes.

The Financial Management of Catastrophic Flood Risks in Emerging Economy Countries

Report; by Howard C. Kunreuther and Joanne Linnerooth-Bayer; Wharton Risk Management and Decision Processes Centre - University of Pennsylvania, and the International Institute for Applied Systems Analysis; available at <http://www.iiasa.ac.at/Research/RMS/june99/papers/kun-lin.pdf>

Discusses hedging instruments in the context of developing countries for government finance for recovery efforts.

Disaster Risk Reduction and Financial Protection: What is Missing, What Can Work? The Case of Latin America and the Caribbean

Presentation; by Kari Keipi; Inter-American Development Bank; London; 15 November, 2006; available at http://www.proventionconsortium.org/themes/default/pdfs/Forum06/Forum06_WS5_keipi.pdf

Document discusses collaboration of government, civil society and bilateral agencies in disaster risk prevention; includes role of governments' hedging of disaster risk.

Recommended Organisations and Programmes

(from Amit Sharma, International Federation of Red Cross and Red Crescent Societies (IFRC), New Delhi)

Working Women's Forum, Chennai

55, Bhimasena Garden Street, Mylapore, Chennai – 600004, Tel: 044-24992853/24993937; Fax: 044-24992853 wwforum@eth.net; http://www.workingwomensforum.org/ser_microinsurance.htm

Committed to ensure security of its members, the NGO-MFI is working with insurance companies to provide insurance services to its members for health, disaster, and more.

VimoSEWA, Ahmedabad

Chanda Niwas, Opposite Karnavati Hospital, Ellisbridge, Ahmedabad – 380 006, Tel: +91-79-26580530; social@sewassa.org; <http://www.sewainurance.org/vimosewa.htm>

VimoSEWA provides social protection and security

to vulnerable communities in form of credit-based insurance on health, property and life with disaster risk cover.

All India Disaster Mitigation Institute (AIDMI), Ahmedabad

411, Sakar Five, Near Nataraj Cinema, Ashram Road, Ahmedabad - 380009, Gujarat; Tel: +91-79-26586234; Fax: +91-79-26582962 dmi@icenet.co.in; <http://www.southasiadisasters.net/>

AIDMI works on disaster preparedness and mitigation and has designed insurance schemes for disaster risks for vulnerable communities.

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad – 500 001, Andhra Pradesh; Tel: 91-(0)40-30512500/91-(0)40-30512501; Fax: 91-(0)40- 30512502 ; <http://www.basixindia.com>

A livelihood promotion institution and has developed weather insurance product whose experience was recognised by the Government of India and has been widely replicated.

Dhan Foundation, Madurai

18, Pillaiyar Koil Street, S.S. Colony, Madurai - 625 016, Tamil Nadu; Tel: +91-452-2610794, 2610805 ; Fax: +91-452-2602247; dhan@md3.vsnl.net.in; <http://www.dhan.org/themes/kalanjiam.php>

Dhan carries out community banking programmes focussing on women and has designed insurance schemes for disaster risks for vulnerable communities.

Indian Farmers Fertiliser Co-operative Limited (IFFCO), New Delhi

IFFCO Sadan, C-1, District Centre, Saket Place, New Delhi –110017, Tel: 011-42592626, 26542625; Fax: 011-42592650; <http://www.iffco.nic.in/applications/iffcowebr5.nsf/?Open>

IFFCO is a leading farmers cooperative which has designed insurance schemes for disaster risks for vulnerable communities.

Proshika: A Centre for Human Development, Bangladesh

Information and Documentation Resource Cell (IDRC), Proshika, I/1-Ga, Section-2, Mirpur, Dhaka-1216, Bangladesh, Tel: 8015812, 8016015; Fax: 880-2-8015811 idrc@proshika.bdonline.com; <http://www.proshika.org>

It provides general insurance schemes which provide annual cover in case of property damage due to disasters, while regular savings stay intact.

Centre for Self-Help Development (CSD), Nepal

Dillibazar, Post Box: 8852, Kathmandu, Nepal; Tel: 977-1-425597/424787; Fax: 977-1-430363 csd@mos.com.np; <http://www.csdnepal.org.np/>

CSD provides disaster micro insurance to female members and their husbands under a community based scheme covering death and property loss.

(from Milton Sastry, CONSIDER, Bapatla)

CARE India, Hyderabad

6-3-608/1, Anand Nagar Colony, Khairatabad, Hyderabad – 500004, Tel: +91-40-23313998; Fax: +91-40-23323441; cbox-ap@careindia.org; <http://www.careindia.org/ManageProgrammeKey/VisitProgrammeDetail.aspx?ProgrammeKeyID=28>; Contact Mr. Dev Prakash; Team Leader, Tsunami Response Programme; devprakash@careindiatn.org

CARE carried out the Tsunami Relief Programme (TRP) which provided micro insurance to the victims through a tie up with partner NGOs and private sector organisations.

Royal Sundaram Alliance Insurance Company Limited, Chennai

Sundaram Towers 45 & 46, Whites Road, Chennai – 600 014, Tel: 91-44-28517387; Fax: 91-44-28517376; customer.services@in.royalsun.com; <http://www.royalsundaram.in>

An insurance company that partnered with CARE India under TRP in Tamil Nadu to provide micro insurance to victims.

(from Kalika Mohapatra, UNDP, Orissa)

National Flood Insurance Programme, USA

Federal Emergency Management Agency (FEMA), 500 C Street S.W., Washington, D.C. 20472; Tel: 888 379-9531; Fax: 202 646-2818; FloodSmart@dhs.gov ; <http://www.floodsmart.gov/floodsmart/pages/index.jsp>

A successful FEMA programme, that aims to reduce flood damage through floodplain management, and to provide flood insurance to people with government support.

ICICI Lombard General Insurance Company Ltd, Guwahati

4th Floor, Mayur Garden, ABC Bus Stop, G S Road, Guwahati – 781 005, Tel: 0361-1463144; Fax: insuranceonline@icicilombard.com; <http://www.icicilombard.com>

ICICI Lombard partnered with the Government of Assam to provide disaster risk and health insurance under the Mukhya Mantri Jiban Joyti Bima Achni.

Related Consolidated Replies

Delivery of Micro Insurance Services, from Ajaya Mohapatra, We The People, New Delhi (Experiences).

Issued 25, April 2007; available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-03040701-public.pdf>

Provides case studies and models for distribution channels of micro insurance and key lessons for efficient implementation of micro insurance schemes.

Alternative Micro Insurance Products and Delivery Mechanisms, from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Experiences).

Issued 30 May, 2007; available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-09050701-public.pdf>

Provides information on various delivery mechanisms and best practices in providing micro insurance; includes case studies on innovative products and technology solutions.

Capability Assessment of Micro Insurance Providers, from T.V. Ramesh, ALEgION Insurance Services Ltd, Chennai (Advice).

Issued 30 May, 2007; available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-17050701-public.pdf>

Presents criteria to indicate the ability of an organisation to deliver micro insurance cost-effectively; also shares challenges and advice to MFIs providing micro insurance.



E-Discussion Summary

Query: Micro Health Insurance for Disadvantaged Groups

Compiled by Navin Anand, Resource Person and Nupur Bahl, Research Associate Issue

Date: 2 July, 2008

From Discussion Guest Moderator: Marc Socquet, International Labour Organization (ILO), New Delhi

Posted 30 October, 2007

Dear Members of the Microfinance Community,

Most informal economy workers, who account for 94 percent of the labour force, do not have any social security benefit, including health protection. Given the poor and deteriorating public health facilities, these workers and their families are deprived of essential health services. As part of its commitment for the well-being (specifically health insurance) of all workers, particularly in the unorganised sector, the Government of India has made efforts to provide health insurance to disadvantaged groups.

In October 2007, the Government of India released its plan to provide health protection to informal economy workers. A health insurance scheme is to be launched in a phased manner so as to reach 300 million people over the next five years. While the Central Government will provide technical and financial assistance to the States implementing the scheme, the State Governments will be responsible for the design and implementation of their schemes.

Against this background, the ILO has initiated a study to provide an overview on all previous, ongoing and planned Central and State Government sponsored health insurance initiatives in different states. One of the key challenges faced in this regard is the paucity of primary data and information on the operational mechanisms and impact of all health insurance schemes including the Central and State Government health insurance initiatives.

An Action Group of the microfinance community is being set up to address these issues. This would provide an interactive platform for contributing to knowledge development, capacity building and advocacy for micro health insurance schemes.

As a first step of this Action Group, an e-discussion is being launched to gather evidence based answers to the following questions:

- What has been the practical experience of some households who have availed of benefits provided under Central and State Government health insurance schemes developed in different states?
- In which specific areas can there be improvement in the services provided to insured (information, orientation, access to quality healthcare, claims settlement...)?
- What are the views of service providers (public and private health facilities), at all levels, who have been associated with the implementation of these schemes?
- What has been the concrete role and contribution (positive or negative) of the various Third Party Administrators (TPAs) involved in the administration of these schemes?
- What are the practical tools (education, management, monitoring) that are already available in relation to health insurance?
- What are the main conditions explaining the success (or failure) of some Central or State Government health insurance schemes?

I request and encourage members to share whatever information and evidence they have access to on any (or all) of these issues. Concrete evidence based information would help us provide inputs to the Government for better design and implementation of micro health insurance schemes for the poor.

All interested members are encouraged to provide inputs to this important issue, which would affect most MFIs in the coming days.

Responses were received, with thanks, from

1. Gandhi Gurusamy, Micro Insurance Research Centre (MIRC), London, United Kingdom
2. Rushi Bakshi, Royal Netherlands Embassy, New Delhi
3. G. K. Agrawal, Microfinance Consultant, Mumbai
4. Vineet, Independent Researcher, New Delhi
5. Ayan Chatterjee, HDFC General Insurance Co. Ltd., Mumbai
6. Rupa Chakraborty, Bengal Rural Welfare Service (BRWS) Hospital, Kolkata
7. N. Jeyaseelan, Microfinance Consultant, Madurai (Response 1; Response 2; Response 3)
8. Sanjeev Kumar, GOAT INDIA, Lucknow
9. Neeraj Sati, AXIS Bank Ltd., Kolkata
10. N. Srinivasan, Microfinance Consultant, Pune
11. Iddo Dror, Micro Insurance Academy (MIA), New Delhi
12. Ritesh Kumar, Telserra Global Inc., Gurgaon
13. K. P. Vijaykumar, ICICI Bank, Mumbai
14. Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad
15. François-Xavier Hay, GTZ and UpLift Health, Pune (Response 1; Response 2)
16. S. V. Chalapathy Rao, NABARD, Chennai
17. Mukul G. Asher, Lee Kuan Yew School of Public Policy – National University of Singapore, Singapore
18. Satyajit Dey, Centre for Civil Society, Silchar
19. Karpagam Sankaranarayanan, Gradatim IT Ventures, Chennai
20. Arabinda Mitra, Ghoragacha Swanirvar Samiti, Kalyani

Further contributions are welcome!

Summary of Responses

Microhealth insurance involves participation of different players at three levels – ‘supply side’, ‘demand side’ and at the ‘intermediation level’ of its value delivery chain. The e-discussion on the subject focused on different aspects of the microhealth insurance value chain, including experiences of beneficiary households with government schemes, service providers, products and services, and discussed the technical tools available, and factors affecting success of these schemes.

Discussants highlighted household experiences, and expressed that people often lack faith in the claim settlement process and therefore want involvement of SHGs or other peoples’ organisation. Clients see higher end premiums as investment and therefore, expect some returns. Practice of paying claims in trainings and meetings has proved to be enhancing the faith of the other members. Further, respondents emphasised that households are in need of forms and details of insurance schemes in local languages. Members also suggested considering microhealth insurance services as an important factor in the context of livelihood security of the poor.

Looking from the point of view of poor households, respondents felt microhealth insurance requires a ‘value oriented approach’ and not ‘commercial approach’ as majority of the clients are from disadvantaged groups. Members suggested doing an operation mapping of all the schemes and conducting a mass media campaign to build a common understanding on what they offer. Additionally, they recommended training SHG leaders and intermediary institutions on claims handling to help address the problem of information asymmetry.

Discussants noted there are gaps in the products offered by insurance companies and the needs of clients, and advised studying the situation to develop need-based products and without ignoring the opportunity to pass premium benefits to the end user. They mentioned that most of the insurance products cover only hospitalisation. Recommending customisation of products and services, discussants cited examples of successful experiments in Tamil Nadu and Maharashtra where NGOs have customised microhealth insurance products based on the health surveys in consultation with the national level insurance companies with which NGOs are having tie-ups.

Respondents also cited an example of using existing public healthcare facilities from Maharashtra by creating pressure to maintain the quality of services. This has kept premiums low, accessible to the poor and applicable to elderly people. Additionally, they argued for creating Public-Private-Partnership (PPP) models.

Members stressed putting up mechanism for monitoring different activities of microhealth insurance such as product and services, delivery of services, claims administration, etc. in order to re-orient the schemes.

Questioning the feasibility of making microhealth insurance as stand-alone activity for a number of reasons, such as high-risk groups, problem of quality and governance, and thus discussants suggested linking with micro-financial flows or government programmes. They recommended dealing with the services – health and microhealth insurance – separately and stressed demystifying the different types of services (i.e. health insurance, healthcare and hospitalisation).

Responding on the issue of health services, members suggested enhancing the network of the hospitals and nursing homes in the rural areas to provide health services. They quoted examples of initiatives taken up by some NGOs to create their 'own network of hospitals and clinics' for providing micro insurance and having tie-up arrangements with hospitals run by the Government and NGOs. 'Cashless facilities' was also recommended as a micro-medical insurance.

Respondents urged enhancing the participation of intermediary organisations such as NGOs, MFIs, self-reliant mutual benefit organisations, cooperatives, farmers' unions and other similar institutions, to function as 'key facilitators' to represent both the supply and demand side. Members also discussed that service providers often find it difficult to directly deal with the clients due to operational costs and the difficulty of getting economy of scale, and clients have fear to deal with unknown.

Citing an example from Tamil Nadu, members explained that insurance companies are concerned with the scale of clients therefore it is advisable for NGOs to create formal or informal networks and deal with the companies collectively. This can result into getting customised products and services, at an appropriate cost and good margin as intermediary.

Further, respondents also mentioned an NGO, networking for the purpose of social security in Maharashtra wherein different NGOs came together to work through a common platform to pool resources and take collective action, sharing various tools like pricing software, Management Information System (MIS) and other materials. Members thus suggested NGO/MFIs need not set up their own small insurance projects as it would higher risk; instead, work through tie-up arrangements with mainline insurance companies.

Discussants highlighted the role of community-based models, noting how the focus needs to shift from the 'captive market' to the 'community'. These models are based on 'peer control' and can spread fast like SHGs, enhancing outreach. Clarifying the covariant risks, respondents mentioned that these risks are applicable only when communities are kept outside risk management and argued communities could create their own risk coping mechanisms. Mentioning the work of an NGO in West Bengal, members also informed about the benefits of mixing the well-off and poor clients so that the benefits of this heterogeneity are used for the welfare of the poor. They also recommended for starting profit sharing model for intermediaries.

The respondents stressed the need to lower the entry-level barriers to entering a microhealth business, to promote competitive products and models using local knowledge. Competition in the market would then play a positive role in the process of introducing quality products with lower premiums. Members cited how the Government of Assam despite paying huge premiums to insurance companies, utilisation of the Government's schemes was limited due to lack of information among communities.

Discussing the health insurance needs of people and specifically insurance products, discussants felt that since it is a competitive market, a 'strategy of exclusion' is necessary. Organisations exclude the poor based on risk, age, pricing discrimination, etc. Therefore, they suggested regulating inclusive (group) policies with equal contributions for all ages.

Regarding the issue of sustainable systems, members suggested not only having a 'sustainable health insurance system,' but also a 'sustainable social security system' controlled by community and managed by professional organisations. They felt IT companies working in a particular area need to collaborate

with NGO/MFIs to enhance the reach of technology to rural areas. For example, in Andhra Pradesh, a consumer product dealer with the help of a public sector insurance company provided health insurance (accidental insurance policy) to rural communities. Respondents also mentioned how a reputed company linked health insurance with a particular consumer product. Considering similar experiments, members suggested utilising the rural Public Distribution System (PDS) as a channel for health insurance.

Respondents argued that enhancing health insurance demands would generate supply side changes as well, such as creating a more conducive environment and infrastructure. This includes arrangements for public sanitation, quality water, and health centres. Members advocated for initiatives at demand and supply side and felt there is a need to link microhealth insurance with community health interventions.

In addition, discussants outlined players in the microhealth insurance field, broadly classified into four categories:

Supply Side

- Government promoted and private insurance companies
- Central and state governments and various relevant departments
- IT companies involved in supporting microhealth insurance
- Insurance consultants (companies and individuals)
- Health service providers – public sector hospitals/health centres, private hospitals, hospitals/clinics run by NGOs.

Demand Side

- Disadvantaged groups – grouped in SHGs or as individuals.

Intermediary Organisations/Individuals

- NGOs working as MFIs or with other NGOs
- People's organisations – SHG federations, self-reliant cooperatives/mutuals, SHGs and farmers' unions
- Panchayati Raj Institutions (PRIs)
- Individual agents/advisors.

Other Organisations

- Regulatory bodies and rural development banks – RBI, IRDA and NABARD
- Research organisations – insurance, management institutes, etc.

Members also identified major challenges and tasks, which need addressing for microhealth insurance schemes to work, including:

- Educating target beneficiary about the scheme
- Enhancing the outreach of the service providers
- Getting support of PRIs in generating awareness and collecting premiums
- Having intermediary service providers function as a substitute agency for Third Party Administrators (TPAs) and framing a system of providing necessary incentives for their services
- Improving the infrastructure facilities for health services.

Finally, respondents stressed streamlining the role of the intermediary organisations for microhealth insurance and advocated for these organisations be community owned and governed institutions. They highlighted the importance of creating a 'self-sustaining social security system' wherein intermediary institutions play the central role. Members concluded by noting the questions laid out in the e-discussion, require further discussion given fast changing scenario of micro insurance, and advised looking at the following queries in-depth:

- What are the multi-faceted activities of recommended intermediary organisations (functioning as a conduit between supply and demand sides of the micro insurance delivery chain)? What are the different innovations and experiments done in this area?
- How should the health service provider act within the micro insurance functional framework? What are the various arrangements and linkages successfully being experimented with?
- What are the expectations of the practitioners from Government and regulatory bodies in context of strengthening the intermediaries?

Comparative Experiences

West Bengal

Healthcare Programme of Bengal Rural Welfare Service (BRWS) Helps People Access Health Services, Kolkata

(from Rupa Chakroborty, Bengal Rural Welfare Service Hospital, Kolkata)

BRWS borrows money from banks to build their own clinics and diagnostic centres, which aim to provide access to hospital care to individuals from weaker sections of society. They also refer patients to selected

Government and private hospitals. Cashless facilities are given to all the clients in order to encourage people to accept micro-medical insurance. This model has successfully mixed "well-off" and "poor clients", so that the benefits of this heterogeneity are used to help the poor.

Tamil Nadu

Customisation of Products to Meet the Needs of Rural Artisans

(from N. Jeyaseelan, Microfinance Consultant, Madurai; response 1)

In 2002, a comprehensive health survey was conducted on the Palmyrah Workers Development Society's Network for Education and Empowerment of Rural Artisans Micro-Health Insurance Programme. The insurance products were customised as per the needs of the rural artisans and their families. It was done by a tie-up with New India Assurance Company. The preliminary health survey conducted before undertaking the programme fed into the design and creation of need-based micro insurance products.

Andhra Pradesh

Project Shakti Provides Health Insurance to Villagers, Chityal Mandal

(from Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd, Hyderabad)

A Shakti dealer piloted an accidental insurance policy scheme. With the help of a public sector insurance company, the head of the family was given accidental insurance policy for Rs. 10,000. The premium amount is offered at a discount to all customers purchasing at least Rs. 250 worth of items. The Shakti dealer insured more than 150 families in a year. Subsequently, Hindustan Unilever Ltd. tried it for its premium product Pepsodent dental cream, which also worked well.

Maharashtra

Community-Led Association for Social Security (CLASS) Helps Members Access Insurance

(from François-Xavier Hay, GTZ and UpLift Health, Pune)

Several NGOs recently came together to form CLASS. This organisation intends to pool various resources like data, training modules, tools, partnerships, and even risks in an "open source/wiki mode" for its members in order to advocate the voice of communities with the Government, facilitate capacity building and

build sustainable models for inclusive outreach. Materials like pricing, software etc. for managing health insurance are shared among members of the network.

Related Resources

Recommended Documentation

Published Papers by the Micro Insurance Academy (MIA)

(from Iddo Dror, MIA, New Delhi)

Report; MIA; New Delhi

Available at <http://www.solutionexchange-un.net.in/mf/e-discuss/disc01-t01-res06.doc>

Document provides list of materials published by MIA based on its field research in India on micro health insurance.

(from N. Jeyaseelan, Microfinance Consultant, Madurai; response 1)

Micro Health Insurance – A Way of Ensuring Financial Security to the Poor

Article; by Mr. N. Jeyaseelan; Insurance Chronicle Magazine; ICFAI University Press; December 2007; Permission required: Yes, paid publication

Available at <http://www.iupindia.org/1207/ic.asp>

Article discusses the importance of financial security and social protection for the poor and disadvantaged.

Study on NEERA's Micro Health Insurance Programme

Powerpoint Presentation; by Mr. N. Jeyaseelan; Independent; Madurai; October 15, 2007

Available at <http://www.solutionexchange-un.net.in/mf/e-discuss/disc01-t01-res02.ppt>

Presentation shares the preliminary findings of a study conducted by Palmyrah Workers Development Society (PWDS) on a micro health intervention implemented by NEERA.

Profile of Micro Health Insurance Scheme Led by PWDS and NEERA

Article; by Mr. N. Jeyaseelan; Independent; Madurai; 2007

Available at <http://www.solutionexchange-un.net.in/mf/e-discuss/disc01-t01-res03.doc>

Shares the product details and profile of Palmyrah Workers Development Society (PWDS)

who conducted a study on NEERA's microhealth insurance intervention in Tamil Nadu.

Recommended Contacts and Experts

Professor Ramesh Bhat, Indian Institute of Management, Ahmedabad

(from Rushi Bakshi, Royal Netherlands Embassy, New Delhi)

rbhat@iimahd.ernet.in

Working with the Government of Gujarat on micro health insurance initiatives.

Related Consolidated Replies

Delivery of Micro Insurance Services, from Ajaya Mohapatra, We The People, New Delhi (Experiences), Microfinance Community, Issued 25 April, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-03040701-public.pdf>

Provides case studies and models for distribution channels of micro insurance and key lessons for efficient implementation of micro insurance schemes.

Alternative Micro Insurance Products and Delivery Mechanisms, from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Experiences)

Microfinance Community, Issued 20 May, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-09050701-public.pdf>

Provides information on various delivery mechanisms and best practices in providing micro insurance; includes case studies on innovative products and technology solutions.

Capability Assessment of Micro Insurance Providers, from T. V. Ramesh, ALEgION Insurance Services Ltd, Chennai (Advice). Microfinance Community, Issued 30 May, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-17050701-public.pdf>

Presents criteria to indicate the ability of an organisation to deliver micro insurance cost-effectively; also shares challenges and advice to MFIs providing micro insurance.

Disaster Risk Insurance for Vulnerable Communities, from Thiagu Ranganathan, Centre for Insurance and Risk Management, Institute for Financial Management Research, Chennai (Experiences; Examples), Microfinance Community, Issued 20 August, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-drm-25070701.pdf>

Shares experiences and challenges in implementing risk transfer mechanisms and provides several examples of disaster insurance in India and abroad.

Insurance and HIV, from Imtiaz Ahmed and Tara Manchin Hangzo, Financial Management and Research, Chennai and American India Foundation, New Delhi (Examples; Experiences) Microfinance Community and AIDS Community, Issued 18 February, 2007

Available at <http://www.solutionexchange-un.net.in/aids/cr-public/cr-se-aids-mf-04010701-public.pdf>

Highlights the challenges of health insurance for PLHIV and describes the experiences and examples of limited insurance available in various countries.



Consolidated Reply

Query: Appropriate Legal Structure for Health Mutuals – Experiences; Advice

Compiled by Navin Anand, Resource Person and Monika Khanna, Research Associate

Issue Date: 27 September, 2008

From Kumar Shailabh, Uplift India Association, Pune

Posted 11 August, 2008

I work with the Health Mutuals programme of Uplift India Association, a Section 25, not-for-profit Company formed by a group of NGOs of Maharashtra. Uplift India Association was established in 2004, to create a common resource platform and technical support team for micro-finance (micro credit and micro insurance) and social projects.

Uplift initiated a community owned micro health insurance programme adopting an innovative 'Mutuals (risk pooling) Model', where its' member organisations (NGOs, MFIs) organise communities to pool their health risks in local Arogya-Nidhis (Health funds). These Arogya-Nidhis are physically located in bank accounts jointly held by the NGOs and the community representatives. Decisions regarding the claims are being taken by the member communities themselves, according to the technical guidelines prepared by Uplift in consultation with the communities. Contributions received from members in slums are divided on a 60:20:20 basis among the claim fund, administrative cost to the Member NGOs and technical support-back-office-software charge to Uplift.

Around 40,000 people living in slums of Pune, Mumbai and rural Marathwada region of Maharashtra, share their health risks together. Uplift provides technical support, risk management services and other benefits to its' member organisations under 'Health Mutuals Programme', through a network of more than 130 healthcare providers, a well trained technical team and in-house database

management software. Governance of mutuals at Uplift is shared today between the member organisations and community representatives, and policy decisions are validated by the communities before implementation. To see the Uplift Model, please click here <http://www.solutionexchange-un.net.in/mf/cr/res11080801.doc>.

Since, IRDA has so far issued guidelines regularising only the partner agent model (where an NGO becomes an agent of an insurance company), this model seeks an appropriate legal structure that will represent its existing governance design, provide future growth opportunities, so that it does not suffer any consequences of being in a legal, regulatory vacuum.

Most of the member organisations of Uplift India Association, providing services to the mutuals, have a legal status of not-for-profit organisations, by virtue of their registration in Section 25 Companies/Societies Registration Act 1860/Indian Trust Act 1882. We request members to share their experiences, documents (case studies, reports etc.), views on:

- Appropriate models (non-partner agent models) of legal structures for the community owned mutuals involved in microhealth insurance/other health risk coverage programmes*.

*In Uplift, we call it by the name of mutuals as the risk is not transferred but pooled in bank accounts held by community representatives and the facilitating NGO/MFI.

- Studies on legal structure for other than the commonly known partner agent model (where an NGO functions as an agent of an insurance company).
- Reviews of the partner agent model and if there are learnings that could be shared with the wider community.

Responses received from the members will facilitate us to take decisions regarding the appropriate legal entities at different levels and in the formation of a legally conducive structure. Additionally, it will provide a new replicable model for other MFIs undertaking or preparing to undertake microhealth insurance activity.

Responses were received, with thanks, from

1. Bhuvan Chand Joshi, Grameen Vikas Samiti, Pithoragarh
2. N. Srinivasan, Consultant, Pune (Response 1; Response 2)
3. Navin Anand, United Nations Development Programme (UNDP), New Delhi
4. Abhishek Mendiratta, Consultant, New Delhi
5. Narendra Baduni, Africulture Finance Corporation, Dehradun
6. Jai Pal Singh, Centre for Microfinance, Jaipur
7. Vipin Kumar, Reliance Retail Limited, New Delhi
8. Rama Reddy, Indian Cooperative Union, Hyderabad (Response 1; Response 2; Response 3)
9. N. Jeyaseelan, Microfinance Consultant, Madurai
10. Jaya Patel, World Food Programme, Tehri Garhwal
11. Gurusamy Gandhi, Micro Insurance Research Institute, London, United Kingdom
12. Neeraj Mehta, Consultant, Gurgaon
13. G. K. Agrawal, Rural and Microfinance Consultant, Mumbai
14. V. Vivekanandan, SIFFS, Trivandrum
15. Iddo Dror, Micro Insurance Academy, New Delhi
16. Sanjeev Kumar, GOAT (India) Trust, Lucknow
17. Nirmala Buch, Mahila Chetna Manch, Bhopal
18. Kumar Shailabh, Uplift India Association, Pune

Further contributions are welcome!

Summary of Responses

Appreciating health mutuals as one of the most desirable models for achieving 'outreach' in rural areas of India, respondents discussed the concept in detail, suggested various models and approaches and shared experiences.

Discussing the benefits of health mutuals, members identified following positive factors of the model:

- Community owned groups better able to meet the health needs of a specific community
- Healthcare services are provided at the right time, right cost and without risk of debt
- Limited possibility for health service providers to charge high prices for care
- Built-in monitoring system – 'Arogya Nidhi' is collectively operated by community representatives and NGOs/promoting organisation
- Shares characteristics of mutual benefit organisations – voluntary, open membership, democratic management, resource pooling, one-vote scheme, autonomous and endorses self-help/mutual help
- Focus is not on profit generation, distribution of profit or creating a shared capital base.

Discussants looked at several models of health mutuals, including two popular models from West Africa – the mutualistic or participatory model of mutual health organisations (MHOs) and the Provider-Driven or Technocratic Model. The Mutualistic Model is need-based and formed after conducting basic survey of members. Decisions are taken by people as per their mutual interest, and members bargain with service providers for adequate and timely health services.

Another model mentioned was the Netherlands' Mutuality Societies, which have been functioning successfully for decades. Members also listed MIAN (Dutch Association of Mutual Insurers) and FOV (Mutuality Insurance Association of Netherlands and Federation of Mutuality Insurers) Interpolis as other good examples of health mutuals.

Discussants pointed out that IRDA has not yet established guidelines/regulations on appropriate models (non-partner agent models) for the legal structure of community owned health mutuals. Currently, a stand alone health insurer has to bring in a capital of Rs. 50 crore, which is difficult for mutuals to mobilise. Therefore, members suggested the IRDA

evolve an enabling legal framework for mutuals, similar to the system in the Philippines. In the Philippines, only a nominal regulatory capital of five million pesos (Rs. 48 lakh) for micro-mutual benefit association is required.

Members also noted that the legal entity of 'health mutuals' will depend on various factors, like objectives and functions, grant and donations, tax benefits, the member's interest in receiving a share of any surplus, sustainability of the system etc. Based on their legal form, discussants categorised the type of organisations promoting health mutuals into three categories – not for profit, mutual benefit and for profit.

Mutually Aided Cooperatives Societies (MACS) registered under the Multi-State Cooperative Societies Act could be a good legal option for health mutuals. Members stressed that recent amendments to the Income Tax Act need factoring in to the design of new institutions. Respondents informed that the health insurance mutuals, incorporated under the MACS Act, will not be subjected to the regulations of IRDA or the provisions of the Income Tax Act. These exemptions will be available to health mutuals as long as they only deal with members. If it goes beyond its members, it becomes non-mutual, and falls under insurance regulations and income tax provisions. The MACS Act exists in nine states: Jammu and Kashmir, Uttarakhand, Bihar, Madhya Pradesh, Chhattisgarh, Jharkhand, Orissa, Karnataka, and Andhra Pradesh.

Respondents suggested not taking up mutual insurance schemes envisaging high possibilities of covariant risks wiping out all members' assets at a time. Large membership, preferably over a large and diverse geography would diversify the risk and make the arrangement workable.

Members also opined that if members of health mutuals want to restrict activities to healthcare services and economic risk coverage, and there is no objective of commercial activities and creation of profits, then a not-for-profit organisation registered under the Society Registration Act 1860 or Section 25 Company, will serve the purpose. However, if 'Health Mutuals' are developed as multi-purpose institutions, which can undertake livelihood activities, collaborate with service providers (i.e. hospitals and other relevant institutions) for business, earn profits and distribute the benefits, then it will be good for them to form mutual benefit organisations like 'Cooperatives'.

Regarding the formation of companies, members informed that the formalities and annual expenditures for maintaining these companies are until the volume of business scales up, and therefore, it is not advisable to go for any of the companies. However, cumbersome members mentioned that insurance can be an objective of a 'producer company' and if one is working with 'Primary Producer Group', then registering Health Mutuals as Producer Company is not a bad idea.

Respondents suggested health mutuals join together to form federations at the cluster level (or any appropriate level). This model, they felt would also offer a good withdrawal strategy. Promoting the partial replication of existing model, members recommended creating a 'Mutual Health Fund' at the level of SHG-federations and encouraging SHGs to save a fixed amount each month (or increase as per the capacities of the members) to serve as the source for the 'health fund' or 'Arogya Nidhi'.

Discussing the various health insurance schemes being implemented by national insurance companies under Government's projects and programmes, members highlighted several important problems with these schemes, namely:

- Lack of awareness among BPLs about their coverage under insurance schemes.
- Beneficiaries not receiving 'Health Cards' on time and ignorance about how to use the health cards.
- Cumbersome process involved in reaching the authorised doctor and lack of awareness about the names of the doctors or health problems which can be claimed.
- Low percentage of claims settlements and insufficient information about procedures for making claims.

Respondents also shared experiences from Andhra Pradesh, where two organisations are assisting nearly 5,000 households to design and implement a self-funded and self-managed microhealth insurance scheme and Gujarat where a leading NGO is providing health insurance to its members. Another example mentioned was an NGO's livestock insurance project in Rajasthan, where community members contribute to a collective fund, under the control and direct supervision of selected community leaders, which provides relief to livestock owners, whose animal dies in spite of receiving first aid treatment and vaccinations.

Finally, members suggested for creating community-based intermediaries like health mutuals and giving legal form to these organisations; formulating need-based health insurance schemes by encouraging beneficiaries to participate in the planning and implementation and in monitoring the service providers at regular intervals. They also advised NGOs to play a key role in taking up 'health mutuals' model to enhance outreach. Members also recommended NGOs to conduct baseline surveys, Focus Group Discussions, and utilise National Sample Survey (NSS) data to assess the health insurance requirements in their areas.

Comparative Experiences

Gujarat

Integrated Social Security Scheme Provides a Range of Benefits

(from Jaya Patel, World Food Programme, Tehri Garhwal)

SEWA has come up with an Integrated Social Security Scheme for its members. It was initiated to cover the loss of life, assets, spouse (male), personal accident, sickness and also provides maternity benefits. Later, they added medical insurance for husbands and children to the scheme. All insured members contribute a premium to the scheme. As of January 2006, 152,651 women and their husbands were covered under the scheme and more than 32,000 women have received benefits.

Rajasthan

"Saheli Rahat Kosh" Provides Mutual Insurance, Dholpur

(from Sanjeev Kumar, GOAT (India) Trust, Lucknow)

PRADAN, through the District Poverty Initiatives Programme, promoted a goat farmer cluster in Sarmathra, a region characterised by high mortality rates of goats. Moreover, insurance companies were delaying or not paying claims. To overcome this problem, PRADAN established the SHG "Saheli Rahat Kosh" to provide insurance support. Now, if a goat dies, members are paid the insurance claim out of the group's pooled deposit. This mutual insurance scheme has proved an effective support to the poor.

Andhra Pradesh

Pilot Project to Develop Health Insurance Package, Warangal City

(from Rama Reddy, Indian Cooperative Union, Hyderabad; response 1)

The Micro Insurance Academy and the Cooperative Development Foundation are helping 20 Women's Thrift Cooperatives (WTC) (incorporated under the Andhra Pradesh MACS Act), with a membership of about 5,000. They are aiding the WTCs in designing a self-funded and managed health insurance package. The project will be launched in January 2009 and based on the lessons learned. The cooperative-based microhealth insurance scheme will expand to 275 WTCs, covering over 100,000 women.

International

Cameroon

Community-based Health Financing Schemes for the Poor

(from Monika Khanna, Research Associate)

The AWARE-RH project, funded by USAID/WARP is supporting the development and promotion of MHOs. Members pay a premium ranging from 360 FCFA (US\$0.66) to 480 FCFA (US\$0.88) per person per month. The premium covers 70 percent to 100 percent of the cost of services, like medical consultations, surgeries, delivery and antenatal and postnatal care. Since the launching of the scheme in August 2005, 3,283 individuals have joined the MHOs in three districts.

Africa

Mutual Health Organisation Giving the Poor Access to Healthcare

(from Navin Anand, Resource Person)

Majority of the poor people in Africa are unable to afford health services, especially in emergencies. To overcome the situation, MHOs were promoted as a means for providing financial risk protection. The MHOs are owned, designed and managed by the community they serve and are not-for-profit, based on the principles of mutual aid and social solidarity. Since 2004, in West and Central Africa, the number of MHOs grew from 76 in 1997 to more than 800 by 2004.

Related Resources

Recommended Documentation

IRDA Micro Insurance Guidelines

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Guidelines; IRDA; 10 November, 2005;
Available at <http://www.irda.org/amin/download/irda.pdf>

Provides the regulatory framework for insurance sector, also distributes micro insurance products, appoints agents & works on the design of micro insurance products (including health).

Performance Indicators for Micro Insurance

(from Iddo Dror, Micro Insurance Academy, New Delhi)

Toolkit; by J. Wipf and D. Garand; Appui au Développement Autonome (ADA); April 2008
Available at <http://microfinancegateway.org/content/article/detail/48561>

Describes nine principals and ten key indicators for measuring performance of micro insurance products (including for health). It also shares sample performances for each indicator.

Mutual Health Insurance – An Experience from Africa

(from Navin Anand, Resource Person)

Paper; by Götz Huber, Jürgen Hohmann and Kirsten Reinhard; GTZ-Deutsche Gesellschaft für Technische Zusammenarbeit GmbH; 2003
Available at <http://www.microfinancegateway.com/content/article/detail/33270>

Discusses the development of MHOs in Sub-Saharan Africa; describes the history and the current health financing situation in the region.

Success of Health Mutuals in Cameroon

(from Monika Khanna, Research Associate) Document; Engender Health; 2005

Available at <http://www.aware-rh.org/index.php?id=362&type=98>

Shares experiences of MHOs in West Africa; also describes the success of integrating health financing into well-established microfinance organisations.

Recommended Organisations and Programmes

(from Abhishek Mendiratta, Consultant, New Delhi)

Securities and Exchange Board of India (SEBI), Mumbai

Plot No. C4-A,'G' Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400051, Maharashtra; Tel: 91-22-26449000/40459000; Fax: 91-22-26449016-20/40459016-20; sebi@sebi.gov.in; <http://www.sebi.gov.in/>

Autonomous body, drafts regulations, conducts investigation and enforcement action and passes rulings and orders in its judicial capacity.

Insurance Regulatory and Development Authority (IRDA), Hyderabad

3rd Floor, Parisrama Bhavan, Basheer Bagh, Hyderabad – 500004, Andhra Pradesh; Tel: 91-40-23381100; Fax: 91-040-66823334; irda@irda.gov.in; <http://www.irdaindia.org/>

A National agency, which protects the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and matters connected to it.

(from Rama Reddy, Indian Cooperative Union, Hyderabad; response 1)

Micro Insurance Academy (MIA), New Delhi

D-127, Panchsheel Enclave, New Delhi; Tel: 91-11-41749101; Fax: 91-11-4174-9102; www.microinsuranceacademy.org/work

Trust providing trainings on community-based microhealth insurance schemes and also conducts evidence-based research on micro insurance.

Cooperative Development Foundation, Hyderabad

H. No. 3-5-43/B, Opposite Jagruti College, Ramkote Hyderabad – 500001, Andhra Pradesh; Tel: 91-40-2475-0327, 91-870-2432-744; info@sahavisaka.coop; <http://www.sahavikasa.coop/thrift.htm>

Aims at forming and developing self-reliant cooperatives, designing a self-funded and managed health insurance package for thrift cooperatives.

Self-Employed Women's Association (SEWA), Ahmedabad

(from Jaya Patel, World Food Programme, Tehri Garwal)

SEWA Reception Centre, Opposite Victoria Garden, Bhadra, Ahmedabad – 380001 Gujarat; Tel: 91-79-25506444/77/41; Fax: 91-79-25506446; mail@sewa.org; <http://www.sewa.org/services/work.asp>

Trade union, organises women workers to achieve full employment and self reliance by capacity-building; introduced integrated social security scheme for the members.

(from G. K. Agrawal, Rural and Microfinance Consultant, Mumbai)

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 Maharashtra; Tel: 91-22-26539244; Fax: 91-22-2652-8141; nabmcid@vsnl.com; <http://www.nabard.org/>

Development bank which facilitates credit flow for promotion and development of agriculture, small scale industries, cottage industries, handicrafts and other rural crafts.

Grameen Bank, Bangladesh

Grameen Bank Bhavan, Mirpur-1, Dhaka-1216, Bangladesh; Tel: 88-02-9005257-69; grameen.bank@grameen.net; <http://www.grameen-info.org/bank>

Largest microfinance institution in Bangladesh, provides interest based microfinance services to the poorest sections of society.

(from Sanjeev Kumar, GOAT (India) Trust, Lucknow)

Professional Assistance for Development Action (PRADAN), New Delhi

3, Community Shopping Centre, Niti Bagh, P.B No. 3827, New Delhi – 110049, Tel: 91-11- 26518619, 51640611; Fax: 91-11-26514682; pradhanho@vsnl.com;

http://www.pradan.net//index.php?option=com_content&task=view&id=45&Itemid=31

Implementing an SHG promotion through the District Poverty Initiatives Programme; promoted Saheli Rahat Kosh to provide insurance support.

Mulkanoor Cooperative Rural Bank and Marketing Society Ltd., Andhra Pradesh

Mandal: Bhemadevarapally, District: Karimnagar, Andhra Pradesh; Tel: 91-8727-248222/41; Fax: 91-8727-248221; info@mcrbms.org; http://www.mcrbms.org/services_and_activities.asp

Aims to empower farmers by extending activities like help in soil testing, pest attack, introduction of new agricultural practices, animal husbandry and crop seminars.

Recommended Portals and Information Bases

Statutes for a European Co-operative, European Mutual and European Association, European Commission, Europe

(from Bhuwan Chand Joshi, Grameen Vikas Samiti, Pithoragarh)

http://ec.europa.eu/enterprise/entrepreneurship/coop/social-cmaf_agenda/social-cmaf-mutuals.htm

Shares details on the types of health mutuals in Europe, and also the regulatory environment existing in Europe.



AIDS Community



Poverty Microfinance Community

Consolidated Reply

Query: Insurance and HIV – Experiences and Examples

Compiled by E. Mohamed Rafique and Sumeeta Banerji, Resource Persons and Rituu B.Nanda and Sachin Kumar, Research Associates

Issued Date: 18 February, 2007

From: Imtiaz Ahmed, Institute for Financial Management and Research, Chennai and Tara Manchin Hangzo, American India Foundation, New Delhi

Posted 4 January, 2007

The HIV epidemic is becoming a cause of much concern in developing countries like India. HIV, apart from being a public health problem, raises concern due to the high expenditure associated with its care. Apart from anti retroviral (ARV) drugs, the People Living with HIV (PLHIV) require continued care for opportunistic infections. As it is difficult for the PLHIV to finance the care they require, it becomes imperative to provide them with a financial alternative like health insurance that takes care of the associated expenditure. Consequently, I would like members to give their valuable inputs and share experiences regarding:

- The challenges and feasibility of providing HIV insurance to PLHIV
- Experiences, best practices and models especially where insurance has been tried in resource constrained settings
- What other risk mitigating mechanism was used?
- What are the lessons we can learn from these experiences?

Your response will help all of us in trying out various financial alternatives to address the financial aspect of this pandemic.

Responses were received, with thanks, from

1. Waseem, Rizvi College of Management, Mumbai
2. Nachiket Mor, ICICI Bank, Mumbai (Response 1; Response 2; Response 3)
3. Gladson Paul, IPAS, New Delhi
4. Subash Chandra Ghosh, Tata Institute of Social Sciences, Mumbai
5. Alka Narang, UNDP, New Delhi
6. Sanjeev Kumar, Hindustan Latex Family Planning Promotion Trust (HLFPPT), New Delhi
7. Lalit M. Nath, AHEAD, New Delhi
8. Anita Rego, Hindustan Latex Family Planning Promotion Trust (HLFPPT), Hyderabad
9. Nishikant Shrotri, Johns Hopkins University Communication Partnership Programme & ARCON, Pune

10. Sumeeta Banerji, ILO, New Delhi
11. Stanzin Dawa, India HIV/AIDS Alliance, New Delhi
12. Amitrajit Saha, Durbar Mahila Samanwaya Committee, Kolkata
13. Janaki Menon, Medical College Hospital, Thrissur
14. Kris Dev, Transparency and Accountability Network, Chennai
15. P.V. Ramesh, Prakasam District Positive Network, Hyderabad
16. P. Joshila, ILO, Delhi
17. T. V. Ramesh, ALEgION Insurance Services Ltd., Chennai
18. E. Mohamed Rafique, UNAIDS India Country Office, New Delhi
19. Richard Stern, Agua Buena Human Rights Association, San Jose, Costa Rica
20. Shalini Khare, Consultant, Kanpur
21. Ajithkumar K., Medical College, Thrissur
22. Manimaran, Tata Coffee, Valparai
23. Brojen Gogoi, Tata Tea Ltd., Kolkata
24. H. S. Sharma, Consultant, Gurgaon
25. Avnish Jolly, Servants of The People Society, Chandigarh
26. Santosh S. Bagali, Consultant, Bijapur
27. B. S. Deswal, Station Health Organisation (Army), Pune
28. Surindra A. Jain, Ministry of Women and Child Development, New Delhi
29. Arif Clinton, Labour League Foundation, New Delhi
30. Steve Glovinsky, UNDP, New Delhi with Michael Erlanger, Insurance specialist, Connecticut*

*Offline contribution

Further contributions are welcome!

Summary of Responses

HIV raises concerns due to the high expenditure associated with its care. It becomes imperative to provide a financial alternative like health insurance that takes care of the related expenditure. Getting a berth can prove to be a major obstacle in today's health insurance market. The query sought inputs and experiences regarding the challenges and feasibility of providing HIV insurance to PLHIV..

Members raised the issue of denial of life insurance to PLHIV. One of the most serious and widespread

problems is employment discrimination by both private and Government employers. The loss of a job not only deprives PLHIV of their income, which is important particularly to pay for medical treatment, but also often terminates the person's medical insurance.

Other challenges in developing HIV insurance package, discussants stated, are the issues of adverse selection and risk estimation. It is common for health insurance companies to discriminate against PLHIV, believing that PLHIV pose a serious financial hazard. To minimise their risk, companies engage in discriminatory and illegal practices. Insurance companies, members pointed out, may establish underwriting standards like HIV tests or sexual orientation in passing on an application for health insurance, respondents observed. However, the California Court has declared the 'homosexual profile' used in underwriting and quashing insurance policies as unlawful. Yet, PLHIV do not get insurance as it is supposed to cover 'risk of loss' rather than actual loss. Since there is no effective treatment for HIV, the risk of loss of life is definite compared to, for example heart disease, for which there are well-established medical interventions.

Respondents discussed the difficulties that PLHIV face in contesting the claims of insurance. The insurance company's superior financial and legal strength and the insured's deteriorating health make for an unfair fight. The type of treatment received poses another problem area, subscribers revealed. An insurance company may contend that a certain treatment is 'experimental' or not 'reasonably necessary'.

Premium increases are a usual practice in health insurance, which usually target the sickest insured for the most severe hikes. PLHIV fall prey to these practices, discussants argued. As a result, members discovered that PLHIV deplete their assets to keep the premiums current for the coverage. Consequently, many people in this situation eventually lose their coverage.

Another ploy used by insurance companies, is to reduce or eliminate certain coverage from the policy, which they deem are too expensive, or are subject to over-utilisation. Certain insurance companies, members reported, cancel blocks of policies when they become unprofitable. Conversely, insurers have complained that lack of representative and medical data has kept them from providing insurance products.

Respondents underlined that Indian insurers are ready to cover certain stages of HIV but cannot cover all the patients.

While exploring the problems of PLHIV, discussants emphasised the stand of insurance companies are the same for PLHIV and other patients with terminal diseases. Insurers claim that policies of those who test HIV-positive after taking out life insurance are honoured. Yet a significant number of respondents discontinue premium payment worried that their death due to HIV would result in policy cancellation. Fear of disclosure and stigmatisation prevent people from seeking clarification directly from the company, with the result that some infected people are likely to forgo claims to their policies. Another fall out of denying insurance to PLHIV brought up by discussants was the medical records. In death certificates, doctors avoid mentioning HIV as the cause of death so that the family of the deceased gets the insurance amount.

Though in India there is no HIV insurance yet, respondents cited examples of limited insurance available in other parts of the world. Members discussed the concept of viaticals prevalent in the US. In this settlement, a terminally or chronically ill person sells his or her life insurance policy to a third party for a lumpsum payment. In return, the third party takes over payments on the policy and is the beneficiary of the policy upon the death of the patient.

Members described Wisconsin HIV Health Insurance Premium Subsidy Programme, which provides assistance by covering all or part of the cost of policy premiums. Policies available in South Africa can also help to design insurance products for PLHIV in India, members suggested. ARVs and insurance cover are complementary in HIV management, members felt. Tanzania has seen a spurt in insurance policies for PLHIV. Deep price cuts and free distribution in some government hospitals means easier access to ARVs, so people stay productive for longer periods and can generate income to pay their premiums and get health services in return.

Discussants cited a comprehensive study in Uganda to examine the feasibility of financing the insurance for PLHIV. Members appreciated that IFMR is designing an insurance policy against HIV. IFMR is tying up with NGOs and MFIs for access to data that will aid in designing a comprehensive health insurance plan.

Members recommended other modes of finance generation for PLHIV. MFIs operating in areas with high HIV prevalence can play an important role by building effective links to specialised providers of health and insurance services. Usha Multipurpose Cooperative Society in West Bengal and Foundation for International Community Assistance in Uganda are examples of successful microfinance programmes for PLHIV. Freedom Foundation is collaborating with UNDP for covering PLHIV under an insurance scheme. Corporate sector can play a major role in the microfinance and insurance issues. ICICI Bank and HLFPT have shown keen interest to take up these ventures.

With the involvement of MFIs, respondents were skeptical about the loss of confidentiality. They suggested the use of biometric tracking of beneficiaries of microfinance and insurance to help maintain confidentiality. Members also felt that awareness on insurance programmes especially in rural areas could ensure their reach to grassroot levels.

Health insurance is a critical issue for PLHIV. It ensures that PLHIV support their families, as they would be productive, live a better life, and contribute positively to community development.

Comparative Experiences

West Bengal

Usha Multipurpose Cooperative Society

(from Dr. Amitrajit Saha, Durbar Mahila Samanwaya Committee, Kolkata)

It is a cooperative bank started by sex workers in 1995 under the aegis of the Durbar Mahila Samiti, a Kolkata-based sex workers' collective. It provides savings and credit, social marketing of condoms and marketing of consumables. The co-operative is not for economic 'rehabilitation' of sex workers who are in the trade, but is designed to provide a financial resource for them to fall back on, to minimise their economic desperation and create space for negotiation.

South Africa

An Innovative Insurance Newcomer

(from P.V. Ramesh, Prakasam, District Positive Network, Hyderabad)

All Life offers whole life, term life and home loan protector life insurance for PLHIV in South Africa. It provides affordable insurance for up to \$410,000 enabling them to protect their loved ones and get

mortgages. Although its cover costs two to five times more than standard life insurance, it is much cheaper than what was available before. To maintain their cover, clients have to go for regular blood tests and take ARV medication when needed. All Life sends reminders for tests and monitors results. This helps clients to stay alive and All Life to keep risks down.

Uganda

Role of Microfinance Institution

(from Sumeeta Banerji, ILO, New Delhi)

FINCA has developed several products in response to the health needs of its PLHIV clients. In 1999, FINCA introduced a health insurance product for clients that include coverage for HIV treatment, but not medication. By January 1, 2000, it covered 235 individuals. While coverage is optional, at least 60 percent of FINCA clients in a given Village Bank must join to initiate coverage. Co-payments minimise excessive use of the plan's services. FINCA offers its clients life insurance through a partnership with American International Group.

(from Rituu B. Nanda, Research Associate)

Tanzania

Increased Cases of Insurance for HIV

Price cuts, free distribution in some government hospitals and advances in medicine have helped allay fears over the terminal nature of HIV, encouraging employers to take out comprehensive health cover for staff, including HIV. AAR, an international health insurance fund manager, has experienced a surge in its health fund portfolio recently. African Life Insurance in Dar-es-Salaam, has launched 'Tumaini' - Kiswahili for hope – insurance cover for HIV positive clients.

Namibia

Insurance Companies Unwilling to Cover HIV

Many insurance companies have announced their decision not to pay claims for HIV-related deaths. They have complained of too many HIV-related deaths and the resultant claims. Insurance companies are losing millions through their clients dying of this dreaded disease, and are therefore no longer prepared to take the risk of insuring persons who may be HIV positive.

USA

Wisconsin HIV Health Insurance Premium Subsidy Programme

The HIV/AIDS Health Insurance Premium Subsidy Programme helps persons with HIV maintain access to

health insurance when they reduce their work hours, take unpaid medical leave, or terminate employment. The programme does this by covering all or part of the cost of policy premiums. The programme began in state fiscal year (SFY) 1991 and is under Wisconsin statute ss. 252.16 & 252.17.

California

It is unlawful in California for insurance companies to use HIV test results in passing on an application for health insurance or to select risks based on sexual orientation. In one recent case, Blue Cross of California developed a 'homosexual profile' to use in underwriting and rescinding insurance policies of those who developed HIV. The court declared the use of the sexual profile unlawful and discriminatory.

Related Resources

Recommended Documentation

India: HIV and AIDS-related Discrimination, Stigmatisation and Denial

(from Waseem, Rizvi College of Management, Mumbai)

By Shalini Bharat et al; August 2001; UNAIDS
http://data.unaids.org/Publications/IRC-pub02/JC587-India_en.pdf

Describes the discriminatory practices against PLHIV in relation to care, treatment, services, travel, migration, insurance and health benefits.

Insurance for HIV-infected

(from Gladson Paul, IPAS, New Delhi)

The Times of India; January 6, 2004
<http://timesofindia.indiatimes.com/articleshow/408324.cms>

Reports on the plans of Central Government to bring in a legislation to protect people infected with HIV during the trials of HIV vaccine in India.

(from Sumeeta Banerji, ILO, New Delhi)

Economy and Epidemic: Microfinance and HIV/AIDS in Asia

By Stuart Mathison; The Foundation for Development Cooperation; June 2004.

http://www.developmentgateway.com.au/jahia/webdav/site/adg/s_hared/HIV_microfinance.PDF

Explores ways in which MFIs can assist their clients and families to cope with the impact of HIV and supports the prevention of HIV.

Microfinance Strategies for HIV/AIDS Mitigation and Prevention in Sub-Saharan Africa

Working Paper No. 25. by A. McDonagh, International Labour Organisation (ILO); 2001

<http://www.ilo.org/public/english/employment/finance/download/wpap25.pdf>

Offers insights into how to configure mix of products and services and adapt conventional products, and operational tools in an HIV context.

CGAP Donor Brief No 14: Microfinance and HIV/AIDS

By United Nations Capital Development Fund/Special Unit for Microfinance; September 2003

http://www.cgap.org/docs/DonorBrief_14.pdf

Useful fact sheet aiming to improve donor practice in the microfinance sector through relevant information on how to help microfinance projects cope in context of HIV.

Using a Fingerprint Recognition System in a Vaccine Trial to avoid Misclassification

(from Kris Dev, Transparency and Accountability Network, Chennai)

By The SonLa Study Groupa; Bulletin of the World Health Organisation; January 2007

<http://www.who.int/bulletin/volumes/85/1/06-031070.pdf>

Recommends that fingerprint recognition technology for the identification of participants is helpful in saving time and energy and has uses elsewhere like in insurance data.

Life Insurance for HIV Sufferers – South Africa Rethinks

(from P.V. Ramesh, Prakasam District Positive Network, Hyderabad)

The Economist, print edition; 9 November, 2006; Johannesburg

<http://brownglobalhealth.wordpress.com/files/2006/11/life-insurance-for-hiv-sufferers.doc>

Comments that life insurance remains beyond the means of millions of HIV positive South Africans due to high costs and fear of loss of confidentiality and resulting stigma.

Enhancing Access and Ensuring Adherence to Antiretroviral Therapy

(from P. Joshila, ILO, Delhi)

By Pop Council; 2004

<http://www.popcouncil.org/pdfs/AR2004/SEAsiaAR2004.pdf>

It shows that adherence and thereby treatment enhancement occurs better among PLHIV who are insured and pay partly for their treatment.

(from Dr. Avnish Jolly, Servants of The People Society, Chandigarh)

Testing Times

By Louis Letourneau; Gay Times; October 2004

http://www.gayfinance.info/news/GT_October04.pdf

The paper challenges the financial companies and Government on their attitudes towards gays, lesbians, and same sex couples by forcing them to declare their sexuality.

Design Policies for AIDS Patients: IRDA Chief

Article in Business Line; February 20, 2003

<http://www.blonnet.com/2003/02/20/stories/2003022001161000.htm>

Urges insurance industry to offer health policies to patients suffering from HIV or other pre-existing diseases and provide suitable products and a proper pricing mechanism.

Universal Coverage in Healthcare Financing: Is community-based insurance the answer?

(from Dr. Santosh S. Bagali, Consultant, Bijapur)

<http://www.publichealth.pitt.edu/supercourse/SupercoursePPT/10011-11001/10751.ppt>

Powerpoint presentation by Prof. R. Sauerborn, Heidelberg University, Germany

The presentation describes the technical process to set up a community initiative for setting up health insurance, which also includes HIV.

(from Rituu B. Nanda, Research Associate)

Sex Workers' Bank: Healthy Returns

by Nilanjana Bhowmick; Boloji.com; February 12, 2007

<http://www.boloji.com/wfs5/wfs728.htm>

Describes the functioning of microfinance project of Usha Multipurpose Cooperative Society and the credit and insurance rendered to the member sex workers in need.

HIV/AIDS and Health Insurance

By Robert S. Gianelli; Being Alive Newsletter; Los Angeles; October 1992

<http://www.aegis.org/pubs/bala/1992/ba921008.html>

The article describes justifications that insurance

companies engage in to minimise their risk while providing cover for PLHIV. Often, these practices are discriminatory and illegal.

Tanzania: Insurance for HIV Positive Employees inspires Confidence

Article in Irin Plus News; November 8, 2006
<http://www.plusnews.org/pnprint.asp?ReportID=6526>
Highlights the increasing incidence of employers taking out comprehensive health cover for staff, including HIV cover in Tanzania due to a downward trend in the cost of drugs.

Namibia: Insurance company says it will not pay claims for AIDS-related deaths

IRIN HIV/AIDS Weekly – 19 Africa; 23 March, 2001
<http://iys.cidi.org/humanitarian/hivaids/01a/ixl19.html>
A news report about decision of insurance companies not to provide insurance cover to people likely to contract HIV as high number of claims for HIV lead to heavy losses.

Feasibility of an Insurance Programme for HIV/AIDS Financing in Uganda

By Gary Gaumer et al; Partners for Health Reform plus; January 2006
<http://www.synergyaids.com/documents/PNADF570.pdf>
Describes financing, related governance, a survey of government workers and issues related to the feasibility of developing an integrated insurance model for HIV in Uganda.

Recommended Organisations

(from Alka Narang, UNDP, New Delhi)

Institute of Economic Growth

University of Delhi Enclave, North Campus, Delhi; Tel: +91-11-27667-288/365/424 system@iegindia.org;
<http://iegindia.org/hpru.htm>
Involved in resource tracking and planning exercises for HIV, and conducting research on the various aspects of health insurance to influence policymaking.

Freedom Foundation

Office - 180, Hennur Cross, Bangalore; Tel: 5440134, 5440135, 5443101
<http://www.thefreedomfoundation.org/freedomcontact.html>
It functions in the field of alcoholism and HIV.

It provides an effective treatment programme for alcoholism and drug-addiction, and a rehabilitation centre for PLHIV.

Karuna Trust

B. R. Hills, Chamarajanagar, Karnataka; Tel: 08226-244025, 08226-244018; www.karunatrust.org
It facilitates integrated development of rural people through health, education, and socio-economic programmes. It aims at developing community health insurance schemes.

Foundation for International Community Assistance

(from Sumeeta Banerji, ILO, New Delhi)
Communications Manager, 1101 Fourteenth Street NW, Eleventh Floor, Washington, DC 20005; Tel: 202-682-1510; info@villagebanking.org ; <http://www.villagebanking.org/work.htm>
Provides financial services to the world's lowest income entrepreneurs so they can create jobs, build assets and improve their standard of living.

Durbar Mahila Samanwaya Committee

(from Dr. Amitrajit Saha, Durbar Mahila Samanwaya Committee, Kolkata)
12/5 Nilmoni Mitra Street, Kolkata
<http://www.durbar.org/>
Forum of sex workers active in challenging and addressing the structural barriers that form the everyday life of sex workers and their material deprivation or social exclusion.

(from Nachiket Mor, ICICI Bank, Mumbai (response 2))

The Institute for Financial Management and Research

24, Kothari Road, Nungambakkam, Chennai
It is a leading business school with a strong focus on finance and recognised as a Social Science Research Institute.

Financial Information Network & Operations Ltd.

Ground Floor, South Tower, East wing, ICICI Towers, Bandra Kurla Complex, Mumbai; Tel: 022-26538060; info@fino.co.in; <http://www.fino.co.in/overview.htm>
Aims to design and implement innovative technology solutions – systems, services, and networks – to enable financial service providers to reach under-served clients.

(from Rituu B. Nanda, Research Associate)

Wisconsin Department of Health and Family Services

<http://dhfs.wisconsin.gov/aids-hiv/index.htm>;
webmaildph@dhfs.state.wi.us

It is the lead agency in Wisconsin Government, responsible for coordinating the state's public health response to HIV including insurance.

Recommended Portals and Information Bases

(from Dr. Avnish Jolly, Servants of The People Society, Chandigarh)

Thisismoney

<http://www.thisismoney.co.uk/>

Site providing comprehensive information on financial news, insurance, pension, savings and loans.

Aidsmap

<http://www.aidsmap.com/cms1008399.asp>

Provides completely searchable databases of HIV treatment and care, worldwide HIV organisation listings, and one of the most comprehensive ranges of patient information.

Viatical Settlements

(from Steve Glovinsky, UNDP, New Delhi with Michael Erlanger, Insurance specialist, Connecticut)

<http://www.viatical-web.org/v10.htm>

Website describe the details of viatical settlements, life settlement, the process and the industry and usage of these concepts in providing insurance to PLHIV.

Recommended Contacts and Experts

Dr. H. Sudershan

(from Prof. Lalit M. Nath, AHEAD, New Delhi)

VKSS, Karuna Trust, Bangalore

He has extensive experience in microfinance and works with PLHIV.

Kris Dev

(from Kris Dev, Transparency and Accountability Network, Chennai)

He can provide information on the use of biometrics in framing a policy on insurance for PLHIV.

(from Nachiket Mor, ICICI Bank, Mumbai (response 2))

Anilkumar S. G.

ICICI Bank Towers, Ground Floor, South Towers, Bandra-Kurla Complex, Bandra (E), Mumbai

He is the appropriate contact person within the Bank to write to for microfinance.

Rupalee Ruchismita

IFMR, 24, Kothari Road, Nungambakkam, Chennai

She is from the Centre for Insurance and Risk Management at IFMR in Chennai and is the right person to contact for insurance.

Arjun Uppal

IFMR, 24, Kothari Road, Nungambakkam, Chennai

He can provide support in creation of diagnostic and healthcare infrastructure linked with insurance or on its own for PLHIV, for comprehensive healthcare.

III.
***Savings – Products, Services and
Delivery Mechanisms***



Consolidated Reply

Query: Providing Savings Services by NGO-MFIs and NBFCs – Experiences and Advice

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issue Date: 28 August, 2007

From Vikash Kumar, Grameen Koota, Bangalore

Posted 7 August, 2007

Dear Community Members,

I work with Grameen Koota, a Bangalore-based MFI. Many of our members are increasingly demanding savings services, however, as an NGO-MFI, the current regulatory framework in the sector does not permit us to collect deposits. As a result, our members resort to keeping their savings in their homes or buying assets. But due to poor planning and management of assets, they often end up with improper utilisation of their surplus money which they can use better for protecting themselves from risks or investing in productive activities.

From the MFI perspective, providing savings services is a great opportunity to serve our customers with services they need and it may also give a collateral substitute to provide larger loans. However, due to regulatory constraints we are not able to mobilise savings.

I am sure that mainstream banks, in partnership with MFIs, may find some way to collect savings from poor people and perhaps use technology to facilitate this in an efficient way. I feel that exploring alternate solutions helps the poor and improves impact of the microfinance sector.

I would like to have suggestions from community members on the following:

- Possible ways to partner with mainstream banks to collect savings from NGO-MFIs and Non-Banking Financial Companies (NBFCs).

- Experiences from such experiments have been done in India and particularly the methodology used to mobilise the savings from microfinance clients.
- What possible technologies can be used to mobilise savings?
- Is there a need for separate strategies for rural and urban areas? If so, then what are the possible ways to address the different needs?

Your inputs would help me to explore the possibilities to provide savings services to our existing members. Your suggestion and sharing of experiences would be highly appreciated.

Responses were received, with thanks, from

1. G. K. Agrawal, Former ED, NABARD, Mumbai
2. Prabhat Labh, CARE India, New Delhi
3. Mona Kachhwaha, Citibank, Gurgaon
4. Rohit Raina, ICICI Bank, Mumbai
5. Navin Anand, International Fund for Agricultural Development (IFAD), Dehradun
6. Girija Srinivasan, Consultant, Pune
7. G. Bhaskara Rao, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad
8. N. Srinivasan, Consultant, Pune
9. Pratapachandran K., Kerala Financial Corporation, Thiruvananthapuram

10. Markos Koentzopoulos, Centre for Microfinance, Chennai
11. Sasidhar N. Thumuluri, MicroVest Capital Management LLC, USA
12. P. Madhava Rao, UNDP, New Delhi
13. Santanu Sengupta, Micro Money Management Enterprise (MMME), Kolkata
14. Islam Husain, PAHAL Community Microfinance Services, Nainital
15. Jai Pal Singh, Centre for Microfinance, Jaipur
16. Devaprakash, CARE India, Chennai
17. N. Jeyaseelan, Microfinance Consultant, Madurai
18. Malay Dewanji, All India Association of Voluntary Agencies (AIAVA), New Delhi

Further contributions are welcome!

Summary of Responses

Responding to a query on how NGO- MFIs can provide savings services, participants listed provisions in the current regulatory framework, permitting NGO-MFIs to work with commercial banks to mobilise savings. Sharing their experiences in the sector, members highlighted several technologies, which facilitate delivery of savings services in remote areas and mentioned alternative and innovative products that could be developed to offer savings services to poor clients.

As managing savings services requires very stringent risk, financial and cash management capabilities, since most NGO-MFIs do not have these skills, respondents suggested working under the current Reserve Bank of India (RBI) framework, which allows NGO-MFIs to open savings accounts for their SHG members. Discussants explained that NGO-MFIs under the Business Facilitator and Banking Correspondent (BC) models developed by RBI could work as an agent of a bank to mobilise savings of SHG members and deposit the money in the bank account of the SHG concerned. Under this model, the bank assumes the risk, while the NGO-MFI gets a small commission to meet its cost for collecting the savings, enrolling clients, and depositing the savings with the bank.

However, members noted that the experience of most NGOs using the BC model showed that the commission offered to NGO-MFIs is sometimes inadequate to cover all their costs. Additionally, because banks must

update their record with all transactions undertaken by the business correspondent model within 24 hours, many NGO-MFIs face difficulties adhering to this policy. They struggle due to the hard terrain they operate in and low levels of technology penetration at the point of transaction with the client.

Respondents shared Citibank's experience using the BC model to offer savings accounts to marginalised communities and slum dwellers in Mumbai and Hyderabad through its MFI partners, using biometric ATM technology.

At the same time, respondents noted that definitive experiences and learnings are yet to emerge from the BC model, as it is relatively new, and stressed the importance of nurturing trust between the two parties for this model to be successful.

Members also highlighted the work of Safesave, an NGO-MFI in Bangladesh combing a savings-led approach with the use of Palm Digital Assistant (PDA) technology to increase outreach to poor communities. Another experience shared was the work of two companies—Vyakul Technologies and Ekgaon Technologies that have developed hand-held devices and other technologies to facilitate the real time transfer of data from the field to branches.

Another option recommended for NGO-MFIs to collect savings was the extensive Indian Postal system, which has one of the largest and deepest networks in the world. Members elaborated that in addition to delivering mail, it offers much needed financial services in remote areas, such as savings accounts and money transfers. They argued that though currently the postal system needs budgetary support, the network has great potential for increasing the outreach of financial services as postal offices are allowed to employ commission-based agents for mobilising deposits. Members highlighted the fact that regulatory bodies are considering the formalisation of moneylenders through an Accredited Loan Facility which will bring them under the ambit of the existing regulatory framework. This facility may also serve as another avenue to increase access to savings services if they properly utilise the available technology.

Along with highlighting regular savings products, members mentioned several innovative products being developed to promote savings among poor

clients, such as micro-pension schemes and micro-mutual funds. In particular, they pointed to SEWA's experience in setting up a pension scheme for the unorganised sector (the first of its kind), piloted in partnership with UTI Bank (now known as Axis Bank).

Regarding possible differences in savings services for rural and urban areas, respondents suggested the possibility of offering daily savings products for urban clients, citing the example of urban 'chit funds' that daily collect between Rs. 5 and Rs. 100 depending on the nature of enterprise (i.e. traders and vendors save very small amounts frequently). Additional research also highlighted the successful experience of 'sanchayeeta (saving) daily deposit scheme' of Cuttack Urban Co-operative Bank (CUCB), which began with the intention of tapping poor urban traders' earning on a daily basis. As one of the most effective banks in its region, CUCB's experience illustrates how savings schemes are successful when tailored to suit the member's cash flow pattern and nature of employment. Similarly, members noted how weekly or bi-monthly savings products may be more successful in rural areas, since cash flow is less frequent under agricultural enterprises.

Respondents agreed that mobilising/managing savings is a key service for NGO-MFIs as they provide access to a new pool of funds which may be used to finance new loans or reduce interest rates. At the same time, they advised that managing savings requires strong treasury management capabilities that MFIs need to acquire or strengthen. Adding that the decision to offer savings requires NGO-MFIs to determine whether the transaction costs imposed by collecting savings outweighs the benefits (such as low cost of funds, client attraction, lower loan loss provisions and information costs due to better lending risk assessment capabilities).

Ultimately, respondents felt that instead of feeling constrained by what regulation does not allow, it is important to look at what innovations are possible within the existing framework. Responding to the apparent need for savings services for the poor, discussants outlined a range of ways to offer savings and investment products to their clients, if NGO-MFIs choose to partner with banks/pension funds/insurance companies and mutual funds through the existing models.

Comparative Experiences

Andhra Pradesh and Maharashtra

Using the Business Correspondent Model, Hyderabad and Mumbai

(from Mona Kachhwaha, Citibank, Gurgaon)

Citibank has started to offer savings account facilities to low income segments/slum dwellers in Hyderabad and Mumbai on a pilot basis. It offers a no-fee, no minimum balance account to customers and provides biometric enabled ATMs as their access to service points. The delivery of this service is done through an MFI acting as a business correspondent/facilitator. [Read more](#)

All India

SEWA Bank Micro-Pension Fund

(from Prabhat Labh, CARE India, New Delhi and Girija Srinivasan, Consultant, Pune)

SEWA Bank found that vanilla savings products were insufficient to meet their members' needs, so the bank broke new ground by introducing India's first Micro-Pension Scheme in April 2006. SEWA members were granted permission to join a Securities and Exchange Board of India (SEBI) approved pension plan that offers no assured returns but allows up to 40 percent collection to be invested in the Indian stock market. This is the first pension scheme for the unorganised sector in India. [Read more](#)

(from Prabhat Labh, CARE India, New Delhi)

Micro Mutual Fund

ICICI Prudential Mutual Fund launched 'Micro Systematic Investment Plan' (MSIP) in association with KAS Foundation (one of the 200 NGOs through which ICICI Bank provides microfinance), to offer a mutual fund investment plan. The plan allows the rural poor to invest in the stock market for as little as Rs. 50/month. KAS plans to replicate this model through the network of NGOs that ICICI Bank has built over the last four years. [Read more](#)

International Bangladesh

Introducing Savings into an MFI – The Case of ASA

(from Anjum Khalidi, Research Associate)

The Association for Social Advancement (ASA)

provides financial services to 1.5 billion poor, using the Grameen model with compulsory savings. In shifting to a more open access savings model, ASA learned that mobilising voluntary savings requires the trust of the members and they also realised that market research is essential to understanding the savings needs of their members which may differ from loan requirements. Read more

Related Resources

Recommended Documentation

Microfinance Clients want Flexible Facility

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Article; by S. M. Rahman; The Financial Express, Dhaka; August 8, 2007

Available at

http://www.thefinancialexpress-bd.com/search_index.php?page=detail_news&news_id=7084

Article covers various technologies being implemented to facilitate financial services (including savings) for the poor; highlights how SafeSave is using Palm Digital Assistants in Dhaka.

Reserve Bank of India (RBI) Circular on Micro-Credit

(from GK Agrawal, Former ED NABARD, Mumbai)

RBI Letter RPCD. No. Plan, BC 21/04.09.22/2004-05 Dt. 21.08.04; June 30, 2004

Available at http://megapib.nic.in/mselfhelpgroup_rbicir.htm

The document details the guidelines set by the RBI for functioning of SHGs and highlights the provisions for savings mobilisation by SHGs and SHG promoters.

Financial Inclusion by Extension of Banking Services – Use of Business Facilitators and Correspondents

(from Prabhat Labh, CARE India, New Delhi; N. Jeyaseelan, Microfinance Consultant, Madurai; Rohit Raina, ICICI Bank, Mumbai; Girja Srinivasan, Consultant, Pune; G. Bhaskara Rao, APMAS, Hyderabad; and Jai Pal Singh, Centre for microFinance, Jaipur)

Circular RBI/2005-06/288 DBOD.No.BL.BC.58/22.01.001/2005-2006; January 25, 2006

Available at http://rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=2718

Detailed guidelines set for the Business

Correspondent model which allows commercial banks and RRBs to deliver services through NGOs and SHGs.

SEWA Bank – UTI Mutual Fund “Micro-Pension” Initiative for Unorganised Sector

(from Prabhat Labh, CARE India, New Delhi and Girja Srinivasan, Consultant, Pune)

Press Release; UTI Bank (now known as Axis Bank); Ahmedabad; April 12, 2006

Available at <http://www.utimf.com/News/NewsFile/129/129.htm>

UTI Bank was the first to develop a micro mutual fund for the rural poor and unorganised sector; this initiative was piloted in partnership with SEWA.

(from Prabhat Labh, CARE India, New Delhi)

ICICI Microfinance Launches Small Investment Plan for Rural Market

Article; by Biju Mathew; Live Mint, The Wall Street Journal; April 26, 2007

Available at <http://www.livemint.com/2007/04/26010752/ICICI-MF-launches-small-invest.html>

Scheme piloted by ICICI Bank and Kas Foundation, an MFI, allows rural poor to invest savings and participate in the stock market for as little as Rs. 50 every month.

What Works: Serving the Poor Profitably

(from Mona Kachhwaha, Citibank, Gurgaon)

Report; by C. K. Prahalad and Allen Hammond; World Resources Institute – Digital Dividend, Markle Foundation

Available at http://www.digitaldividend.org/pdf/serving_profitably.pdf

Report highlights the work of several banks including Citibank, Indian Bank and others who are using technology such as ATMs to reach the underserved with financial services.

Quality Issues in the Microfinance Sector in Rajasthan

(from G. Bhaskara Rao, APMAS, Hyderabad and Jai Pal Singh, Centre for microFinance, Jaipur)

Study; Mahila Abhivruddhi Society Andhra Pradesh (APMAS), Hyderabad and the Centre for Micro Finance (CMF), Jaipur; 2006

Available at <http://www.apmas.org/pdf/Quality%20Issues%20in%20Microfinance%20Sector%20in%20Rajasthan.doc>

Study finds that 73 percent of the sample households save in informal sources including cash in hand; study provides recommendations to increase SHG savings.

Banking Regulations Act, 1949 as Applicable to Co-operative Societies

(from Pratapachandran K, Kerala Financial Corporation, Thiruvananthapuram)

RBI Circular UBD. No. BL (RO) 3 /07.01.00-2001/02; July 18 2002

Available at <http://rbidocs.rbi.org.in/sec14/31557.doc>

Document details guidelines for thrift mobilisation and other provisions for cooperative societies.

Opening of Savings Bank Accounts in the Name of SHGs

(from P. Madhava Rao, UNDP, New Delhi)

NABARD Circular DBOD.DIR.BC.11/13.01.08/98; February 10, 1998

Available at http://www.nabard.org/pdf/circ_rbi10021998.pdf

Document details provisions for RRBs to open savings bank accounts for self-help groups.

(from Markos Koemtopoulos, Centre for Micro Finance, Chennai)

New Policy on the Working of Local Area Banks

Rural Planning and Credit Department, Local Area Bank Section, Reserve Bank of India (RBI)

Available at <http://rbidocs.rbi.org.in/sec14/38589.pdf>

Details the guidelines for the Local Area Bank scheme which was introduced in 1996; covers licensing and other requirements to mobilise savings.

Which savings products do people want?

Paper; by S. Mullainathan and E. Koshy; Institute for Financial Management and Research (IFMR); September 2006

Available at http://ifmr.ac.in/cmfr/?page_id=470

Documents various inventive ways and the extent to which the poor save; highlights some limitations of these savings mechanisms. Useful for MFIs developing savings products.

(from Sasidhar N. Thumuluri, MicroVest Capital Management LLC, Maryland (USA), Devaprakash, CARE India, Chennai

and Jai Pal Singh, Centre for microFinance, Jaipur)

Leveraging India Post's Strength

By R. Vaidyanathan; The Hindu Business Line; July 13, 2006

Available at <http://www.thehindubusinessline.com/2006/07/13/stories/2006071302221000.htm>

Discusses the strengths of the Indian post and its ability to handle financial services in remote areas of the country; argues for more flexibility and more autonomy for viability.

Serving Small Depositors: Meeting Demand while Managing Costs

CGAP-MicroSave Virtual Savings Exchange; December 7, 2005

Available at:

http://microfinancegateway.org/resource_centres/savings/practitioners/_deliveryoptions

Article covers various methods for delivering savings services and highlights the Indian postal system and other technological solutions to facilitate savings by NGO/MFIs.

Postal Savings and the Provision of Financial Services: Policy Issues and Asian Experiences in the Use of the Postal Infrastructure for Savings Mobilisation

Discussion Paper; by Mark J. Scher; United Nations; December 2001

Available at http://gpn.org/research/banking/postal_savings-un-desa_22.pdf

Paper reviews the postal financial systems of 12 developing countries, including product development, investing mobilised funds and utilising financial technologies.

(from Anjum Khalidi, Research Associate)

Mobilising Savings

By Marguerite Robinson and Graham Wright; MicroSave Briefing Note #3; MicroFinance Network and ACCION International; Washington, D.C.; June 4-6, 2001

Available at http://www.microsave.org/Briefing_notes.asp?ID=19

Details savings products and savings as a service as well as a source of funds for loans; covers issues related to cost, management, organisation and human resources.

Introducing Savings into a MicroCredit Institution – Lessons from ASA

by Graham A. N. Wright, Robert Peck Christen and

Imran Matin; MicroSave Briefing Note 2;
Available at http://www.microsave.org/Briefing_notes.asp?ID=19

Details the process under which ASA evolved from a compulsory savings model to voluntary savings; report includes lessons learned for mobilising savings by NGOs.

Sanchayeeta (Saving) Daily Deposit Scheme of Cuttack Urban Co-operative Bank (CUCB)

By Kailash C. Sharma; Microfinance Gateway; 2004
Available at http://www.microfinancegateway.org/resource_centres/savings/library/_summary_sharma

Describes the modalities of CUCB daily savings and loan repayment collection scheme which has also cost-effectively increased outreach and created a large number of jobs.

Recommended Organisations and Programmes SEWA Bank, Ahmedabad

(from Prabhat Labh, CARE India, New Delhi and Girija Srinivasan, Consultant, Pune)

109, Sakar-II, Opp. Town Hall, Ellisbridge, Ahmedabad-380006, Gujarat; Tel: 079-26576054, 26581597; Fax: 079-26576074; mail@sewabank.com; <http://www.sewabank.com/uti-sewa-bank-pension.htm>

First to develop a micro-pension fund for the unorganised sector; launched in April 2006 in partnership with UTI Bank and inaugurated by Mr. P. Chidambaram.

Citibank, Mumbai (from Mona Kachhwaha)

C-61, Bandra Kurla Complex, G Block, Bandra (E), Mumbai, Maharashtra-400051, Tel: 022-4001-5757; uma.deb@citi.com, vibhu.arya@citi.com; <http://www.citigroup.com/citigroup/press/2007/070509a.htm>

Citibank offers savings account facilities to low income segments/slum dwellers in Hyderabad and Mumbai through the BC model.

Ekgaon Technologies, New Delhi

(from Girija Srinivasan, Consultant, Pune)

C-193, 2nd Floor, Opposite 'M' Block Market, Greater Kailash - I, New Delhi-110048, Tel: 011-4165-7166; Fax: 011-4165-7167 info@ekgaon.com; <http://www.ekgaon.com/projects>

Ekgaon Technologies has developed solutions to facilitate savings including hand held devices

to transfer field data to a central server to help minimise risk and fraud.

(from Markos Koemtzopoulos, Centre for Micro Finance, Chennai)

NABARD, Mumbai

Plot Number C-24, "G" Block, Bandra Kurla Complex, PB Number 8121, Bandra East, Mumbai-400051, Maharashtra; Tel: 022-26539272; Fax: 022-26528141 contact@nabard.org, mcid@nabard.org; http://www.nabard.org/microfinance/mf_institution.asp

Covers the regulatory framework guiding MFIs and provisions for Mutually Aided Cooperative Societies (MACS) and Mutual Benefit Trusts (MBTs) to mobilise savings.

Financial Information Network and Operations (FINO), Mumbai

C-401, Business Square, Chakala, Andheri Kurla Road, Andheri (East), Mumbai-400093, Maharashtra; Tel: 022-40973321/466; Fax: 022-40973300; http://www.fino.co.in/biometric_enabled.php/

Develops technologies to help MFIs process transactions quickly and ensure transparency; recommended for MFIs acting as a Business Correspondent to facilitate savings services.

Grameen Sanchar Society (Grasso), West Bengal

(from Santanu Sengupta, Micro Money Management Enterprise (MMME), Kolkata)

Women's College Road, Pirojpur (Opposite Women's College), P.O. and District Malda, West Bengal; Tel: 953512-221505; maldah@grassonet.com; http://www.grassoportal.com/News_Letter/NL_current_proj.htm

Piloted a savings services model with ICICI Bank and FINO opening 26,000 accounts in three months time in remote areas.

Ekgaon Technologies, New Delhi

(from Girija Srinivasan, Consultant, Pune)

C-193, 2nd Floor, Opposite 'M' Block Market, Greater Kailash-I, New Delhi-110048, Tel: 011-41657166; Fax: 011-41657167; info@ekgaon.com; <http://www.ekgaon.com/projects>

Develops technologies to facilitate savings mobilisation by NGO-MFIs; has piloted projects in south India for the immediate transfer of data to branch offices from the field.

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Vyakul Technology Solutions Private Limited, Bangalore

1175, 43rd Cross, I Stage, Kumaraswamy Layout, Bangalore-560078, Karnataka; http://i4donline.net/ATF/2007/fullpapers/Sathyamurthy_ATF07ABS141.pdf; Contact Mr. V. Satyamoorthi; CEO; Tel: 9444415038; sathya@vyakul.com

Used handheld technologies to facilitate the frequent collection of savings from poor rural MFI clients.

Safesave Cooperative Ltd, Bangladesh

2nd floor, 19/ka Pisciculture Housing Society, Shamoli, Dhaka-1207, Bangladesh; Tel: 880-0-2-812-4817; mail@safesave.org; <http://www.safesave.org/>

NGO-MFI with a savings-led approach which focuses on building clients' savings first, and only issues credit that is secured against a client's future or past savings.

Recommended Portals and Information Bases

CGAP Savings Information Resource Centre (SIRC), Microfinance Gateway (from Anjum Khalidi, Research Associate)

http://www.microfinancegateway.org/resource_centres/savings/

SIRC aims to be a one-stop shop for information on small-balance deposit services for the poor; highlights issues of technology, banks, case studies, impact, and more.

IV.
***Transfer of Money – Remittances,
Payments and Services***



Consolidated Reply

Query: Extending Remittance Services to MFI Clients – Experiences

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issue Date: 30 June, 2007

From Manab Chakraborty, Mimo Finance, Dehradun

Posted 19 June, 2007

Dear Community Members,

We at Mimo Finance (<http://www.mimofin.com>), a start-up MFI based in Uttarakhand, strive to extend financial services to remote parts of the Himalayas. Our operational area during the first year (2006-2007) is along the Vikasnagar-Dehradun-Haridwar rural-urban continuum in Uttarakhand. We aim to impact over 17,000 clients in the first year, rising to over 200,000 clients by the year 2010. We cater to the retail credit needs of SHGs, tiny and micro-enterprises, and individuals, using SHGs, Modified Grameen, and commercial microfinance model in lending.

In remote areas where we work, banking and postal rates for money transfers are high and often not available. Therefore, Mimo Finance acquired a non-deposit Non-Banking Finance Company (NBFC) in March 2007, called Shah Sandhu Finance Company Pvt. Ltd, through which we would like to extend remittance services to our clients. However, we are unsure about the legal framework that governs within-country money transfers. We have heard that the RBI treats any collection of money for remittance purposes as “deposits”, a service which is permissible only in the case of deposit-taking NBFCs. If this interpretation is valid, then many NGOs involved in the collection of savings deposits may be breaking the law.

Therefore, to better understand the legal ramifications of offering remittance services, we are seeking inputs from the microfinance community members, on:

- What are the legal provisions governing in-country remittances?
- How to set up in-country remittance services within the current legal framework?
- Sharing organisational experiences in delivering remittance services to the poor.

The knowledge gained during this discussion will help us to provide remittance services to our clients across Uttarakhand within the appropriate legal framework.

Responses were received, with thanks, from

- Rama Reddy, Cooperative Development Foundation, Hyderabad
- Pankaj Kumar S., UNDP, New Delhi
- Baladeb Sen, Microfinance Consultant, Gurgaon
- Sanjeev Kumar, GOAT India, Lucknow
- Kris Dev, Life Line to Business, Chennai
- Anjum Khalidi, United Nations, New Delhi
- Subhransu Tripathy, Entrepreneurship Development Institute of India, Gandhinagar
- Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Response 1; Response 2; Response 3; Response 4)
- Jyoti Prasad Mukhopadhyay, Centre for Microfinance, Chennai
- Sachin Kumar, MicroSave India, Lucknow

Further contributions are welcome!

Summary of Responses

In response to the query on extending remittances to MFI clients, members highlighted the need for greater clarity on the guidelines that govern the legal transfer of money within India and shared the experiences of the few MFI/NGOs that have started offering remittance services to their clients.

Discussing the legal ramifications of MFIs offering remittance services, respondents explained that the RBI considers in-country and foreign remittances 'pipeline deposits' and the remitting banks are viewed as agents of the remitters until the money is paid to the beneficiaries. As of now, the law does not allow MFIs to undertake remittances.

However, the RBI in the Report of the Internal Group relating to Rural Financial Services is recommending certain enabling provisions, relating to the legal provisions of using the business correspondent model to extend financial services to unreached areas. The report stipulates a range of organisations that can function as Business Correspondents, offering remittance services to member clients, specifically:

- Registered NBFCs with a significant rural presence
- NGO-MFIs set up under the Societies/Trust Act/Mutually Aided Cooperative Societies (MACS) with a charter to undertake financial functions
- IT-enabled rural outlets of corporations with appropriate contractual agreements with the principal
- Efficiently operating Primary Agricultural Cooperative Societies (PACS) and post offices.

Members also elaborated on how technology can assist the sector in setting up in-country remittance services within the current legal framework. They mentioned that while electronic banking and E-money are revolutionising the way the financial system functions across the world, changes are needed in the legal system to meet the changing requirements. Furthermore, discussants highlighted a number of issues and risks of e-money that may arise due to the physical and legal differences that exist compared to smart cards, that regulation needs to address, but felt that these methodologies nevertheless have excellent potential for use in remittances and money transfers.

Respondents discussed the fact that migrants need quick, low cost, convenient, reliable, and widely accessible money transfer services to send their earnings

to their families. They noted many organisations are currently trying to study the dynamics of large flows of economic migrants across the country and once the trends and issues are identified, will then be able to develop appropriate products.

Noting that only a few MFI/NGOs are providing remittance services, members shared experiences from India and abroad. In India, MFI/NGO Adhikar based in Orissa has started offering remittance services to its clients and some banks have started using 'smart cards' and biometric ATM cards to provide financial services and which could potentially be used to deliver remittance services. They also mentioned the collaboration between financial institutions and telecom operators in Kenya that allows people without access to banks to transfer cash, take out loans and perform simple financial transactions using mobile phone text messaging technology.

Finally, respondents emphasised the great potential remittances have in the growing microfinance sector and stressed the need to address this issue in a holistic manner, including all the legal and technological aspects.

Comparative Experiences

Orissa and Gujarat

Remittance Services for Oriya Migrant Workers in Surat

(from Anjum Khalidi, United Nations, New Delhi)

Adhikar, an MFI registered as a cooperative, extends remittance services to the estimated 5 lakh Oriya migrants working in Surat. The total volume of monthly remittances from Surat is estimated to be between Rs. 10 and 50 crore and is handled mainly by informal money transfer operators. Adhikar is able to offer service fees one percent cheaper than the local operators. The reduced collection costs (60% of total costs) by hiring collection agents in Surat to collect remittances door-to-door. Read more

Multiple States

Smart Cards to Accelerate Delivery of Microfinance Services in India

(from Kris Dev, Life Line to Business, Chennai)

Gemalto has developed 'smart cards' solution that conveniently and securely stores transaction records to enable micro-banking and simplifies access to financial services for rural populations without access

to traditional banking services. As a result of greater access to 'smart cards', the need for paper-based recordkeeping is reduced and operational efficiency of MFIs improves as well as enables the delivery of remittance to remote areas. Read more

International

Kenya

Money Transfers through E-Money

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai; response 2)

M-PESA allows people without access to banks to transfer cash, take out loans and perform simple transactions using SMS system. M-PESA only requires customers to register with Safaricom and produce identification to access the service. The introduction of the mobile money scheme to Kenya is expected to bring about a revolution in the financial services sector, allowing access to banking for many rural poor for the first time. Read more

Related Resources

Recommended Organisations

Citibank India/Citigroup Microfinance Group, Mumbai

(from Kris Dev, Life Line to Business, Chennai)

7th Floor, C-61, Bandra Kurla Complex, G Block, Bandra (E), Mumbai-400051, Maharashtra; Tel: 91-22-4001-5757; <http://www.citigroup.com/citigroup/press/2006/061201d.htm>

Uses the Banking Correspondent model to work with MFIs as partners and clients to expand access to financial services to those unreached by the formal financial sector.

Financial Deepening Challenge Fund, United Kingdom

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai; response 2)

Enterplan, 1 Northfield Road, Reading, RG1 8AH, UK; Tel: 44-0-118-956-6066; Fax: 44-0-118-957-6066; jmr@enterplan.co.uk; <http://www.financialdeepening.org/default.asp?id=694&ver=1>

Project of the DFID Fund to develop a mobile phone based solution for transferring money in remote areas of Kenya and Tanzania that lie beyond the reach of mainstream financial services.

(from Anjum Khalidi, United Nations, New Delhi)

Rashtriya Gramin Vikas Nidhi (RGVN), Guwahati
Bye Lane No. 8, Rajgarh Road, Guwahati-781003, Assam; Tel: 0361-2452320/2528652; Fax: 91-0361-2528523; <http://www.rgvnindia.org/credit.htm>

The NGO-MFI is planning to introduce remittance services to its members in Assam using email or telephone, for a proposed fee of 1.5 percent; delivery is expected to be completed within 24 hours.

Centre for Micro Finance (CMF), Chennai

8th Floor, West Wing, Fountain Plaza, Khaleel Shirazi Estate, 31/2 A, Pantheon Road, Egmore, Chennai-600008, Tamil Nadu; Tel: 44-4289-2725; Fax: 44-4289-2799; <http://ifmr.ac.in/cmfr/research/research-projects/product-design/>

CMF is working with Adhikar, Ajiwika and Aajeevika Bureau to study product design for financial services for migrants.

Recommended Documentation

Report of the Internal Group to Examine Issues Relating to Rural Credit and Microfinance

(from Baladeb Sen, Microfinance Consultant, Gurgaon)

Reserve Bank of India, CAB. No. 430; July 2005
<http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/65111.pdf>

Document details enabling legal provisions for MFIs delivering remittance services using the Banking Correspondent model.

(from Jyoti Prasad Mukhopadhyay, Centre for Microfinance, Chennai)

Shramik Sahajog

Case Study by Centre for Micro Finance; 2007
<http://www.solutionexchange-un.net.in/mf/cr/res19060701.pdf>

Details the operations of the remittance programme run by the NGO Adikhar in Orissa, focusing on Oriya migrant workers remitting from Surat; includes operational data until October 2006.

Serving Migrants Sustainably – Remittance Services provided by an MFI in Gujarat

By Prabhu Ghatel; Economic and Political Weekly, Vol. 40, No. 17; April 23-29, 2005 (free registration required)
<http://www.epw.org.in>

Article focuses on Oriya migrant workers in Gandhigram using remittance services provided by Adhikar; also includes information on delivery channels and sustainability issues.

Electronic Banking: The Next Revolution in Financial Access?

(from Sachin Kumar, MicroSave India, Lucknow)

By Graham A. N. Wright and Manoj K. Sharma;
MicroSave India Focus Note 4

<http://www.solutionexchange-un.net.in/mf/cr/res19060703.doc>

Article discusses the role of e-banking as a next step in revolutionising the microfinance service delivery system in India, including the delivery of remittance services by MFIs.

FINO Adopts Gemalto Smartcards to Accelerate Microbanking Deployment in India

(from Kris Dev, Life Line to Business, Chennai)

PR Newswire, Press Release; June 25, 2007

<http://www.prnewswire.co.uk/cgi/news/release?id=201411>

Gemalto and FINO will be deploying smartcard technology with biometric authentication which can possibly facilitate remittance services.

(from Anjum Khalidi, United Nations, New Delhi)

Financial Inclusion by Extension of Banking Services: Use of Business Facilitators and Correspondents

Reserve Bank of India; January 25, 2006

<http://fiuindia.gov.in/downloads/68417.pdf>

Details how banks can use the services of NGOs, SHGs, MFIs, NBFCs and CSOs to increase access to financial services such as remittances through the Business Correspondent model

Microfinance in India – A State of the Sector Report 2006

By Prabhu Ghatge; CARE, Ford Foundation and the Swiss Agency for Development and Cooperation (SDC)

http://microfinancegateway.org/files/36347_file_Sector_20Report.pdf

Report covers a wide array of issues facing the microfinance sector in India; includes a section on money transfer services highlighting the work of the MFI Adhikar.

Serving Migrants Sustainably: A Case Study of Remittance Services Provided by a Microfinance Institution in India

By Prabhu Ghatge; Asian Development Bank “Finance for the Poor”, quarterly newsletter of the Focal Point for Microfinance, Vol. 7, No. 1; March 2006

<http://www.asiandevbank.org/Documents/Periodicals/Microfinance/finance-200601.pdf>

Discusses the dynamics of internal labour migration and cites the need for MFIs to expand their portfolio to extend remittance services, focusing on the work of Adhikar, an MFI in Gujarat.

Migration: Labour Flows and Capital Transfers

DFID Madhya Pradesh Rural Livelihood Project, Enterplan; September 2006

http://www.odi.org.uk/plag/RESOURCES/reports/Migration_Madhya%20Pradesh.pdf

Analyses the vulnerabilities faced by migrant workers and explores how remittances help to sustain rural livelihoods by preventing dependence solely on agriculture-based incomes.

Crafting a Money Transfers Strategy: Guidance for Pro-Poor Financial Service Providers

Consultative Group to Assist the Poor (CGAP) Occasional Paper No. 10; March 2005

http://cgap.org/docs/OccasionalPaper_10.pdf

Explores the money transfer market and the building blocks of a money transfer system including the pros and cons for various types of transmission mechanisms for customers and providers.

Recommended Portals and Information Bases

2003 International Conference on Migrant Remittances: Background Readings (from Sarah Figge, UNDP, New Delhi)

Provides resources on international remittances and in particular, includes information on the mobile technology used in Africa.

Overseas Development Institute: Protected Livelihoods and Agricultural Growth Programme

(from Anjum Khalidi, Research Associate)

<http://www.odi.org.uk/plag/projects/index.html>

Includes several research projects on migrants, including labour flows and capital transfers in Madhya Pradesh, remittances and livelihoods in Bihar, and migrant patterns in Andhra Pradesh.

2



Microfinance for Livelihoods and its Sub Sectors

Synthesis Paper 2

Microfinance and livelihoods are intricately linked, as various microfinance products can help the poorest gain access to savings, credit and other financial services, build multifaceted capacities and reduce risks through different social security products such as micro insurance. An increasing concern in the microfinance sector is that microfinance programmes often stand completely disconnected from needs and priorities of the poor. This has led to a wide-ranging debate on whether microfinance services should be minimalistic - offering only financial intermediation services or integrated-offering both financial intermediation as well as non-financial services such as social intermediation, business development services and social services. The Solution Exchange microfinance community discussed the above issues related to Livelihoods in the past year.

Members stressed the importance of shifting to an integrated microfinance approach to ensure that microfinance services help in sustainable economic development of the poor. This shift is already happening in two ways: MFIs are now taking up livelihood support and business development services; and NGOs working as Self-Help Promotion Institutions are gradually converting themselves into NGO-MFIs to take up microfinance activities. Community members justified this move by citing the success of national livelihood programmes promoting credit plus activities. Similarly, a report by the United Nations¹ Secretary General outlines the UN's increasing involvement in microfinance programmes targeted at helping small entrepreneurs meet local community priorities. The group also emphasised that an assessment of microfinance requirements of clients must precede the design of financial products by promotional institutions.

The group also emphasised the importance of credit for livelihood sub-sectors, and quoted the Eleventh Five Year Plan document² as mentioning shortage

of working capital for organised and unorganised micro and small enterprises. It estimates that less than 8 percent of total bank credit finds its way to MSE sector. The discussions directed MFIs working on livelihoods for the poor to undertake savings, insurance, remittance and other financial products in addition to credit for better impact, underlined the crucial role of adequate and timely credit supply for venturing into or for expanding an enterprise.

Recognising that by year 2030, 40.7 percent of India's population will be urban (as pointed out by a report by United Nations Population Fund³), members discussed the increasing microfinance needs of urban poor. 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. Various Government initiatives (e.g. Swarna Jayanti Shahari Rozgar Yojana, Prime Minister Rozgar Yojana and Jawaharlal Nehru National Urban Renewal Mission), as well as efforts by NGOs and MFIs have started providing microfinance services to urban poor. Key microfinance strategies members suggested for urban poor include creating appropriate local information networks to overcome information asymmetries, employing low-cost local field workers and using a teller model to reduce the transaction costs.

In promoting livelihoods for the poor, the group cited the success of the Sub Sector Approach and suggested that the poor be organised into activity-based groups for farm and non-farm sectors (e.g. agriculture, dairy farming, vending, trading etc.), followed by federating such groups. Additionally, MFIs need to impart Business Development Services and monitor productive loan usage patterns, since mere microfinance inputs are not sufficient and cannot support all strategic activities of livelihood value chain. The group also identified specific needs, existing status and best practices of microfinance

¹ United Nations' Road map towards the implementation of the United Nations Millennium Declaration (A Report of the Secretary General), General Assembly, United Nations, 2001, p.19

² Planning Commission, GoI, "Ensuring Rural and Urban Livelihoods" (Chapter - V), Eleventh Five Year Plan, New Delhi: Planning Commission, 2008, p.105

³ United Nations Population Fund, "The Promise of Urban Growth" (Chapter -1), State of World Population 2007, UNFPA, 2007

interventions for particular value chains in the sub-sectors of fisheries, dairy, and Bt cotton. A healthy partnership between Banks and NGO-MFIs was another key suggestion to help poor clients access microfinance, livelihood support services and infrastructure like power, road, cold storage, transportation and information.

The specific microfinance needs of people from disaster affected also came up for discussion. After a disaster, vulnerability levels of the poor become high, making savings or credit based microfinance services redundant. As a strategy, members recommended understanding livelihood systems and socio-economic conditions in affected areas, followed by microfinance products for transferring government assistance and remittances from friends and relatives by methods like mobile phone banking. Social security and micro insurance products for both life and non-life (e.g. health insurance, livestock insurance, etc.) are required in pre-disaster as well as post disaster periods. In post disaster periods, timely insurance payments to affected people would be the emphasis, while in pre-disaster period, the stress would be on providing insurance cover to the people. Further, in the short term, cash for work and cash grants would

be options for such disaster affected families, while in the long term, a portfolio of microfinance services, skills training, business development services and marketing service would be needed to restore livelihoods. Local bodies have a pivotal role to play in rehabilitation and restoration, felt members, adding that management and utilisation of donations could be included as an microfinance service. Support to the poorest for procuring livelihood assets could also come in the form of Micro-leasing⁴, felt the Community, as it is difficult for the poorest or those affected by disasters to provide any collateral.

In the coming year, the Microfinance community will focus on discussing the microfinance requirements of strategic activities of various value chains of different sub-sectors. Innovative concepts like micro leasing for disaster affected and vulnerable people, microfinance for bonded labourers, partnerships for micro financing skill development trainings for employment creation will also be priority issues for the community. The Community hopes that with these discussions, clear strategies for mapping financial requirements of different enterprises and designing variety of products suited to the livelihoods of the poor will emerge.

⁴ Bass Jacqueline and Henderson Katrena, "Leasing: A New Option for Microfinance Institutions" (Technical note No.6), Bamako 2000: Innovations in Microfinance, 2000 (This publication is a joint production of Weidemann Associates, Inc. and Development Alternatives, Inc. which provides a clear understanding of micro leasing)

I.
**Client Focused Microfinance and BDS for
Livelihood Promotion**



Consolidated Reply

Query: Delivery of Business Development Services by MFIs – Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate

Issue Date: 5 February, 2007

From Vikash Kumar, Grameen Koota, Bangalore

Posted 8 January, 2007

I am Vikash Kumar, currently working with Grameen Koota (Karnataka based MFI) as a Project Manager. We are following the Grameen model for delivering micro-credit services and our target clients are poor women in rural and urban slums. More than 85 percent of loan portfolio is distributed for income generation. Income generating activities of our borrowers include animal husbandry, weaving, trading, agriculture etc.

It is often an issue in the field of microfinance to create a wider system of providing services to clients, as finance is not enough to enhance clients' income and overall improvement in their socio-economic conditions. Some of the recent studies, which we conducted here, suggest that we can enhance/strengthen livelihoods condition of our clients by providing 'Business Development Services' (BDS) which would also help to promote efficient loan utilisation. By BDS, I mean providing market linkages, training and capacity building, including productivity enhancement services to our clients.

Following this, we are trying to devise a project for implementing BDS for our clients. We request members to share their experiences on:

- What are the possible models that can be adopted by an MFI for delivering BDS? Is it more effective to develop parallel systems for delivering microfinance services and BDS?
- What are the key challenges in implementation of BDS?

We would also appreciate if members could share supporting documentation including studies, resource links that reflect whether BDS helps MFIs to increase outreach and growth of clients.

Your timely suggestions would help in designing an outline of a project for better implementation of BDS.

Responses were received, with thanks, from

1. Rohit Raina, Access Development Services, Udaipur
2. N. Jeyaseelan, Indian Bank, Madurai
3. Nabaneeta Rudra, TNS India, New Delhi
4. Madhan Kumar A., DHAN Foundation, Madurai
5. Nachiket Mor, ICICI Bank, Mumbai
6. Manab Chakraborty, Mimo Finance, Dehradun
7. Somya Ranjan Dash, Sharada Micro Finance, Bhubaneswar
8. Sunita Baveja, Institute for Financial Management and Research Trust, New Delhi
9. Vipin Sharma, ACCESS Development Services, New Delhi
10. Vara Prasad Chaganti, BASIX, Hyderabad
11. Vidya Ramachandran, Mysore Rural Area Development Agency (MYRADA), Bangalore
12. L. B. Prakash, Akshara, Hyderabad
13. Raj Kumar Jani, Ministry of Panchayati Raj-UNDP, Jaipur
14. Anand M. Tiwari, Government of Gujarat, Gandhinagar
15. Rahul J. Mittra, Margdarshak, Lucknow
16. Anand Kumar Srivastava, Indian School of Microfinance for Women, Ahmedabad
17. Shukla Chatterjee, Liberal Association for Movement of People, Kolkata

Further contributions are welcome!

Summary of Responses

The query exploring models for MFIs to deliver BDS, generated responses highlighting different models and strategies. These varied from integrating BDS with financial service delivery through livelihood support models to promoting separate specialised BDS. Members also provided perspectives from different types of organisations (i.e. NGOs, technical service providers, banks and MFIs) as well as from the clients' viewpoint.

Defining BDS as a livelihood enhancement tool, respondents discussed using a comprehensive livelihood approach that includes value added services along with microfinance. These "value added" services could address issues of market linkages, productivity enhancement, brand development, skill-based training, market information, etc. Members also highlighted the significance of this approach in promoting sustainable livelihoods for women. Stressing the importance of addressing livelihood issues of microfinance clients at a higher sustainable level to impact on poverty, members shared different BDS delivery models/approaches for MFIs to use:

- Integrate BDS with financial services to build the capacity of MFIs to design and develop appropriate BDS, based on a systematic assessment of the gaps and needs of non-financial services and feasibility of providing such services (e.g. the approach used by a livelihood promotion institution in several states). This approach of combining microfinance and BDS could also lower operational costs of MFIs.
- Promote and set up a distinct BDS unit, separate from the microfinance unit to ensure each of the two specialised services, that require different sets of skills and competencies, are performed well.
- Collaborate with NGOs that do not provide MFI services, but have capacities and are willing to provide BDS to the clients of MFIs.
- Leverage the core competencies of public-private and private-private partnerships to deliver BDS (e.g. projects being implemented in Tamil Nadu and Karnataka).

Members cited examples from Tamil Nadu, West Bengal and Maharashtra where parent NGOs have promoted parallel institutions to provide microfinance and BDS services to SHG members. However, they cautioned that linking BDS and credit would make the BDS unit responsible for loan defaults as well. Respondents advised conducting a detailed analysis of the livelihoods

portfolio of microfinance clients and their needs and the MFI's competencies when designing BDS delivery models. Following this, MFIs could either customise value-added services according to client needs and deliver BDS directly or collaborate with specialised BDS providers to ensure effective and efficient delivery of BDS, while constantly improving the service.

Along with delivery models, discussants highlighted several key challenges, including:

- Difficulty in financing BDS processes including costs related to developing systems, expertise and collaboration to provide BDS along with financial services.
- Lack of well-defined strategies for future growth, including structured BDS intervention due to the management information system of MFIs not tracking loan purpose or occupational choices of clients.
- Trouble developing a cogent BDS strategy because of the diverse livelihood types of clients; e.g. BDS design for non-farm sector is complex since clients are too diverse and scattered.
- Lack of staff with market orientation and sub-sector/BDS skills.
- Non-standardisation of BDS quality prior to scaling-up.
- Insufficient measurement of impact of BDS and documentation of existing BDS practices.
- Developing criteria for appropriate costing and pricing of BDS.
- Non-availability of cost comparisons between BDS delivery to individuals vs. groups.

Notwithstanding these challenges, members listed specific ways where MFIs can provide BDS to their clients:

- Forming producers' and marketing groups consisting of microfinance clients engaged in similar economic activities, thus promoting rural-urban links.
- Promoting collective action endeavours of MFI's clients to enable profit through scale of operations and forward/backward linkage (e.g. helping artisan groups to form federations) and cooperatives to facilitate marketing of products under the overall management by MFIs.
- Using profits from the members of federations or people entities to purchase provisions for clients based aggregated demand (done in Tamil Nadu).
- Providing a platform for skills exchange programmes among group members.

- Helping members to access information on prices for agricultural or allied products to earn appropriate profits.
- Providing potential entrepreneurs with training and ideas as well as mentoring on how to establish and manage businesses.
- Exploring MFI involvement/facilitation in agriculture procurement activities.

They also felt that providing flexible loan products to poor clients could help ensure timely and complete loan repayment, and increase clients' income through efficient loan utilisation.

At the same time, concerns were expressed regarding the degree to which MFI ought to be involved in providing BDS. Instead, a minimalist interventionist approach was suggested, which only provides strategic support to clients. This support could be in the form of helping borrowers substantially increase their household income by addressing the problem of distress sales or introducing an appropriate deferred sales method for agriculture and minor forest produce. MFIs could also provide flexible need-based loan products to marginal farmers and migrants resulting in increased returns on agriculture products and better average daily wages by 60-80 percent. Members shared experiences from Amarwada and Tamia in Madhya Pradesh and in Bangladesh, where projects successfully employed this approach.

Highlighting the users' perspective on livelihoods-based services, members mentioned that artisans, primary producers/farmers look for three kinds of support: livelihood enhancement, monetary inputs to meet consumption needs, and advice for business diversification or expansion. According to technical BDS providers, while customising BDS, it is important to differentiate between farm-based livelihoods and non-farm enterprises. Farm-based livelihood interventions require productivity enhancement, crop diversification and market linkage support. Non-farm enterprises require more support in product diversification, business counselling and managing input costs along with technology upgradation.

Finally, respondents from MFIs sought linkages and collaboration with commercial organisations keen to provide BDS to small enterprises in urban and rural settings. They contended that with companies attempting to cut supply costs and link directly with farmers, a new generation of support agencies coined

as Network Enterprises or Technical Service Providers (as in Rajasthan and several states) are emerging. These agencies can play the important role of linking farmers to private companies while safeguarding the long-term interests of farmers. However, the success of these new generation specialised agencies, members argued, would depend on how well they understand the needs of micro-enterprises and primary producers.

Comparative Experiences

Madhya Pradesh

(from Rohit Raina, Access Development Services, Udaipur)

Agriculture Loan Products Helping Farmers get Quality Inputs and Higher Returns

Sanjeevani, an NGO-MFI based at Amarwada block of Chhindwara district introduced an agriculture loan product (5-month loan term) on pilot basis for SHG members. The interest was paid every month and principal at the end of the repayment period. The project was a success, with 100 percent on-time repayment. Moreover, the farmers could bargain for better quality seeds and fertilisers since they had cash to purchase supplies, and did not have to pay on credit.

Innovative Need-Based "Migration Loan"

To survive, many poor individuals migrate out of the Tamia block of Chhindwara. The migrants take credit from contractors to meet their migration related expenses and the contracts in turn force them to work for meagre wages. To address this situation, Mahila Smridhhi Bank-Pararth Samiti, an MFI, is pilot testing a 4-month "migration" loan with a bullet repayment plan to meet expenses and give migrants the possibility of earning 60-80 percent more.

Tamil Nadu

Community-based Enterprise Markets Ethnic Products of SHG Members

(from Madhan Kumar A, DHAN Foundation, Madurai)

An NGO promoted "Aharam", a producer company in Madurai district, which markets nutrient rich food products to 1,000 poor families. It procures regional food products from the farmers and imports non-regional food products at 30 percent of the market price from partner NGOs across six states. It also provides technology training on traditional recipes for nutritious millet malt, puffed rice, etc. and uses common facility centres and modern tools when training farmers.

Community-Led Federation Providing Microfinance and Livelihoods Services

(from Nabaneeta Rudra, TNS India, New Delhi)

DHAN Foundation promoted Vayalgams federations in various districts and provided microfinance services to members of microfinance groups. The Foundation also initiated Agricultural Development Clinics to improve livelihoods of the poor farmers. The clinics provide an agriculture expert at the village level who works with the farmers on productivity, alternate cropping, technology, and seeds farms management.

Public-Private Partnership for BDS Delivery

(from Vidya Ramachandran, Mysore Rural Area Development Agency (MYRADA), Bangalore)

In Ooty, MYRADA and HOPE promoted rosemary farming by provided good quality planting material and also posted a person to live with the farmers and help them. The NGOs entered into a buy-back arrangement with the farmers until they could find alternate markets. Moreover, the Horticulture Department donated an oil-extracting machine and the Spice Board provided land. As a result, the farmers are earning ten times than what they used to earn earlier.

Karnataka NGO and Company Helping Enhance Women's Income through Training

(from Vidya Ramachandran, Mysore Rural Area Development Agency (MYRADA), Bangalore)

MYRADA, an NGO, based in Bangalore was searching for livelihoods opportunities for its disadvantaged women members. In 1995, TITAN came out with a business proposition and decided to outsource assembling of metal bracelets starting with 24 women, after giving them proper training. Presently, this operation has grown to 200 women team in the form of an independent company and each member earns around Rs. 3,000 per month.

Rajasthan Company Linking to Missing Market in Rural Areas

(from Vipin Sharma, ACCESS Development Services, New Delhi)

In Jhadol block of Udaipur district, ACCESS Development Services, set up by CARE India, is implementing a new initiative that organises primary producers according to commodity type (like ginger) to form a

producer company. Through long-term handholding by Development Services, the company has developed a three-year plan whereby it is planning to function as a community based microfinance organisation and plans to address the needs of the value chain.

Maharashtra NGO Promoting BDS for Sustainable Livelihoods of the Poor

(from Sachin Kumar, Research Associate)

Swayam Shikshan Prayog, based in Mumbai, is supporting SHG federations to look beyond simply providing micro-credit to build capacity of its members through workshops, study tours, etc. These activities helped improve the income-generating and marketing skills of federation members. The organisation is now planning to cover 42,000 households directly through community-based enterprises by the year 2011.

West Bengal SHGs Selling Self-Made 'ANAND' Brand with Business Development Support

(from Shukla Chatterjee, Liberal Association for Movement of People, Kolkata)

The Liberal Association for Movement of People (LAMP) based in Kolkata, through its Women Resource Development Centre provided vocational training to 144 SHG members on how to make detergent powder, do embroidery, prepare spices and incense sticks etc. at Chowbaga in 24 Parganas district. LAMP helped the SHG network to create market linkages for these products under the brand "ANAND" in different parts of West Bengal, Jharkhand and Orissa.

Multiple States Addressing BDS Demand from Microfinance Clients

(from Nabaneeta Rudra, TNS India, New Delhi)

BASIX's strategy integrates financial services for livelihoods, agricultural/business development services, and institutional development services in over eight states. As of March 2006, it had provided flexible loan products to over 250,000 active borrowers for agriculture, animal husbandry and non-farm based activities as well as offering BDS to over 26,000 customers from the agricultural, dairy and non-farm sectors.

Technical Service Provider Focusing on BDS

(from Vipin Sharma, ACCESS Development Services, New Delhi)

In January 2007, CARE launched ACCESS Development Services, which set up two programme units—one for technical handholding of MFIs and the other for addressing the demand for BDS of its poor clients. The programme unit for BDS helps MFIs to develop a “Livelihoods Plan” consisting of around 5-6 major sources of livelihoods (includes livelihoods finance plan, a market strategy, technical services and infrastructure support) which cover up to 75 percent clients of an MFI.

International Bangladesh

Agriculture Loan Products with Different Options of Loan Repayment

(from N. Jeyaseelan, Indian Bank, Madurai)

The International Fund for Agriculture Development funded a 5-year (2005-2011) microfinance project for marginal and small farmers in 14 districts. Based on the agriculture cycle and a cash flow analysis of poor farmers, the project launched flexible loan products with various loan repayment options. Due to this, even the poorest farmers are coming forward to take agriculture loans. The project is expected to directly benefit over 0.2 million poor farmers.

Related Resources

Recommended Organisations

(from Rohit Raina, Access Development Services, Udaipur)

Mahila Samridhi Bank-Pararth Samiti, Chhindwara
Behind Dr. Dabke Clinic, Badban Colony, Chhindwara, Madhya Pradesh; Tel: 09826685308; 07162-248220; pararth_samiti@yahoo.co.in

NGO promotes a community managed institution and addresses the demand for microfinance services of the rural poor by providing flexible agriculture loans.

Sanjeevani, Chhindwara

Near Sharda Mandir, Chhindwara Naka, Amarwada Block, Chhindwara, Madhya Pradesh; Tel: 07167-223457; sanjeevani_ngo@rediffmail.com

Civil society organisation provides need-based microfinance services to rural migrants for strengthening their livelihoods opportunities.

(from Nabaneeta Rudra, TNS India, New Delhi)

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Tel: 91-40-

30512500/1; Fax: 91-40-30512502; info@basixindia.com; http://www.basixindia.com

Livelihood promotion institution providing agriculture and business development services in terms of market linkages and technical assistance to non-farm micro-enterprises.

Development of Humane Action (DHAN) Foundation, Madurai

18, Pillaiyar Koil Street, S.S. Colony, Madurai-625 016, Tamil Nadu; Tel: 91-452-2610794/805; Fax: 91-452-2602247; dhan@md3.vsnl.net.in; http://www.dhan.org

Promotes microfinance services through Kalanjiam Federation and tank-fed agriculture development programme through Vayalagam Federation.

Mysore Rural Area Development Agency (MYRADA), Bangalore

No.2, Service Road, Domlur Layout, Bangalore-560071, Tel: 91-80-25352028, 25353166; Fax: 91-80-25350982; myrada@vsnl.com;

NGO supporting microfinance programme through Sangahamitra Rural Financial Services & provides non-farm skills & enterprise development through technical training institutes.

(from Nachiket Mor, ICICI Bank, Mumbai)

Institute for Financial Management and Research Trust, Chennai

24, Kothari Road, Nungambakkam, Chennai-600034, Tel: 91-44-28273801; Fax: 91-44-28279208; http://www.ifmr.ac.in

Trust develops specialised national level entities called Network Enterprises focusing on specific sectors for business development services including MFIs.

Centre for Microfinance, Chennai

24, Kothari Road, Nungambakkam, Chennai-600034, Tel: 91-44-28273801; Fax: 91-44-28279208; sdjari@ifmr.ac.in; http://ifmr.ac.in/cmfmfi-strategy-unit

The MFI Strategy Unit within the Centre helps MFIs to design and implement BDS for microfinance clients.

Mimo Finance, Dehradun

#341, Vasant Vihar, Phase II, Dehradun-248006, Uttarakhand; Tel: 91-135-3205441; mimofin@gmail.com; http://www.mimofin.com

Start-up MFI exploring collaboration opportunities, which can provide BDS in agro-processing, dairy development, medicinal herbs and aromatic plants.

Microfinance for Marginal and Small Farmers Project, Bangladesh

Palli Karma-Sahayak Foundation, PKSF Bhaban, Plot: E-4/B, Agargaon Administrative Area, Sher-e-Bangla Nagar, Dhaka-1207, Bangladesh; Tel: 88-029140057/58/59; Fax: 88-029134431; touhid@pkfsf-bd.org; <http://www.ifad.org/english/operations/pi/bgd/i644bd/index.htm>

Funded by IFAD, provides microfinance and BDS to poor farmers to improve agriculture production through adoption of new technologies, linkage to markets etc.

Covenant Centre for Development, Madurai

(from Madhan Kumar A, DHAN Foundation, Madurai)

18-C/1, Kennett Cross Road, Ellis Nagar, Madurai-625010, Tamil Nadu; Tel: 91-452-2607762; Fax: 91-452-2605789; info@ccd.org.in; http://www.ccd.org.in/about_aharam

An NGO that promotes microfinance through community-based institutions and provides BDS through skills training and marketing assistance to rural entrepreneurs.

ACCESS Development Services, New Delhi

(from Vipin Sharma)

27, Hauz Khas Village, New Delhi-110016, Tel: 91-11-26566060/4101; Fax: 91-11-26564081/29671; vsharma@careindia.org; <http://www.careindia-microfinance.org/DefaultDetail.asp?qstxt=52>

Addresses the needs of the micro-entrepreneurs for BDS by providing livelihoods finance planning, market strategy and other technical services.

(from Vidya Ramachandran, Mysore Rural Area Development Agency (MYRADA), Bangalore)

TITAN, Bangalore

Golden Enclave, Tower A, Airport Road, Bangalore-560 017, Tel: 91-80-2526 8551, 5660 9000; Fax: 91(80) 2527 5756; <http://tata.com/titan/index.htm#Corporate>

Under its corporate social responsibility mandate, company provides BDS to rural women entrepreneurs making watches on the basis of a buy-back guarantee contract.

Health of People and Environment (HOPE), Ooty

Cinchona Village, Dodabetta P. O., Ooty 643002, The Nilgiris, Tamil Nadu; Tel: 91-423-2440579; Fax: 91-423-2224052; market_hope@yahoo.co.uk; <http://www.hopeinnilgiris.org/>

An NGO involved in promotion of organic cultivation of aromatic and medicinal plants, also provides BDS to the producer groups.

Sanghamithra Rural Financial Services, Mysore

916, 8th Main, 3rd stage, Gokulam, Mysore-570071, Karnataka; Tel: 91-821-2415528 or 2512419; Fax: 91-821-2512419; sanmitra@sancharnet.in; www.sanghamithra.org

MFI providing financial services to poor women clustered into self-help affinity groups including business linked individual financial assistance.

(from Rahul J. Mitra, Margdarshak, Lucknow)

Traidcraft, United Kingdom

Kingsway, Gateshead, Tyne and Wear, United Kingdom, NE11 ONE; Tel: 0191-491-0591; Fax: 0191-4976562; comms@traidcraft.co.uk; <http://www.traidcraft.org>

Fair trade organisation helping individual entrepreneurs and business support organisations provide BDS, i.e. developing business skills and access to markets.

Margdarshak, Lucknow

C-1253, Indira Nagar, Lucknow, Uttar Pradesh-226016, Tel: 91-522-4000727; Fax: 91-522-2355377; rmitra@marg-darshak.org; <http://www.margdarshak.org.in>

Private limited company providing/facilitating BDS to rural and semi-urban entrepreneurs in terms of business counselling and planning, and market assessment and linkages.

Oxfam Trust, New Delhi

B-55, First Floor, Shivalik, Near Malviya Nagar, New Delhi-110017, Tel: 91-11-26693763; info@oxfamint.org.in; <http://www.oxfamint.org.in>

A part of Oxfam International providing/facilitating BDS while helping farmers gain fairer access to trade and markets for sustainable livelihoods.

(from Shukla Chatterjee, Liberal Association for Movement of People, Kolkata)

Liberal Association for Movement of People (LAMP), Kolkata

66, Surya Sen Street, Kolkata-700009, Tel: 91-33-22418496/7469; guplamp@cal.vsnl.net.in;

NGO provides microfinance and BDS to women SHG members through its Women Resource Development Centre, DISHARI.

Rashtriya Mahila Kosh (RMK), New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 91-11-23354619/20/28; Fax: 011-23354621; ed_rmk@nic.in; <http://www.rmk.nic.in/chap2.htm>

A Government institution under its Information-Education-Communication (IEC) scheme, provides skills based training, enterprise development training to women and NGO staff.

Hong Kong and Shanghai Banking Corporation (HSBC), Mumbai

2nd Floor, HSBC 52/60, M.G. Road Fort, Mumbai-400001, Tel: 91-22-226853740

Multinational private bank, provides credit facilities to MFIs, who in turn provide microfinance and BDS to rural and urban entrepreneurs.

Industrial Credit and Investment Centre of India (ICICI) Bank, Mumbai

ICICI Bank Towers, Bandra-Kurla Complex, Mumbai-400051, Tel: 91-22-26536425; Fax: 91-22-26531233; <http://www.icicibank.com>

Private bank, it gives term loans to MFIs, which are also engaged in livelihood promotion and provision of BDS to their microfinance clients.

Rabobank Foundation, The Netherlands

P.O. Box 17100, Croeselaan 18, Utrecht 3500 HG, The Netherlands; Tel: 31-30-216-3346/3648; Fax: 31-30-216-1937

Foundation provides grant support to development institutions, which provide rural credit and BDS in developing countries including India.

District Industry Centre, West Bengal

http://hooghly.nic.in/industry/roll_of_dic.htm

Government centre, conducts business development training, provides market information and linkages along with financial assistance to entrepreneurs.

Small Industries Service Institute, Kolkata

111 & 112, B. T. Road, Kolkata-700108, Tel: 91-33-25770595/0597/0598; Fax: 91-033-2577-5531; director@sisikolkata.gov.in; <http://sisikolkata.gov.in>

Field institute for Small Industries Development Organisation under Ministry of Small Scale Industries, it organises training for skill and entrepreneurship development.

(from Sachin Kumar, Research Associate)

Association of Deep Sea Going Artisanal Fishermen, Kanyakumari

Divine Complex College Road, Thoothoor P.O, Kanyakumari-6229 176, Tamil Nadu; Tel: 04651-240617; sharkassn@yahoo.co.uk; <http://www.siffs.org/Index.aspx?Page=ADSGAF.aspx>

Federation of fishermen, provides savings and credit services to shark fishermen and provides training on navigational and safety equipment.

Swayam Shikshan Prayog, Mumbai

Room No. 20, 1st Floor, Shahaji Raje Municipal School, Shahaji Raje Road, Vile Parle (E), Mumbai-400057, Tel: 91-22-22907586/26826871; Fax: 91-22-26820905; sspindia@vsnl.net; <http://www.sspindia.org/sustain.htm>

NGO promotes microfinance through SHG federations and BDS by promoting business-to-business linkages, supporting distribution and marketing of products.

Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad

Plot No. 20, Rao and Raju Colony, Road No. 2, Banjara Hills, Hyderabad-500034, Tel: 91-40-23547927/52 Extn. 50; Fax: 91-40-23547926; msrk@apmas.org or msrk2508@apmas.org; <http://www.apmas.org>

Working for sustainability of District Livelihood Resource Centres that provide BDS through information and training services to SHG members on their economic activities.

MART, New Delhi

A-108, 2nd Floor, New Friends Colony, New Delhi-110065, Tel: 91-11-26926527; Fax: 91-11-26926943; mart@airtelbroadband.in; http://www.martrural.com/ruraldevp_01_a.htm

Technical institution formulating business development and promotion strategy for its institutional clients, and aiming at livelihoods promotion for the poor.

Recommended Documentation**Concept Note on IFMR Trust**

(from Sunita Baveja, Institute for Financial Management and Research Trust, New Delhi)

<http://www.solutionexchange-un.net.in/mf/cr/res23010701.doc>

Explains the trust's initiative to create a network of enterprises giving a platform to the MFIs serving poor entrepreneurs for accessing BDS.

Margdarshak: Corporate Experience and Capacity Profile

(from Rahul J. Mitra, Margdarshak, Lucknow)

Margdarshak

<http://www.solutionexchange-un.net.in/mf/cr/res23010702.pdf>

Note on Margdarshak's role in providing BDS in the field of agriculture to strengthen microfinance and enterprise (micro, small and medium) development.

(from Sachin Kumar, Research Associate)

The Chimes of Cooperation

By Shobha Ramswamy; March 2005

http://tata.com/0_our_commitment/community_initiatives/articles/20050122_titan.htm

Case study on efforts by TITAN and MYRADA to jointly provide business development support to poor women to set up their own company making watch components.

Feeding Innovation: Distributing Cattle Feed through MFIs

Centre for Micro Finance, Chennai; April 2006

<http://ifmr.ac.in/cmfmf/20060401/feeding-innovation-distributing-cattle-feed-through-mfis>

Study examines the effect of introducing Godrej cattle feed, as BDS, on the overall income of the Spandana's microfinance clients engaged in animal husbandry.

See How They Grow: Business Development Services for Women's Business Growth

By Simel Esim; International Centre for Research on Women; 2001

<http://www.icrw.org/docs/bdsdoc.pdf>

The study reviews international BDS experiences that assisted the growth of women-owned enterprises and also include case studies on sericulture and enterprise training

Recommended Portal and Information Base BDS Asia

<http://www.bdsasia.net>

(from Rahul J. Mitra, Margdarshak, Lucknow)

Comprehensive online resource for the business development sector focusing on micro, small and medium enterprises in Asia, particularly in South Asia.

Recommended Contact and Expert

(from Nachiket Mor, ICICI Bank, Mumbai)

Arjun Uppal, Network Enterprises

24, Kothari Road, Nungambakkam, Chennai-600034,
Tel: 91-44-28273801; Fax: 91-44-28279208; arjun.
uppal@ifmr.ac.in; <http://www.ifmr.ac.in>

Heads the Network Enterprises initiative by IFMR. Trust focused on providing technical guidance on BDS to NGOs, MFIs.

Sarah Djari, Centre for Micro Finance

24, Kothari Road, Nungambakkam, Chennai-600034,
Tel: 91-44-28273801; Fax: 91-44-28279208; sarah.
djari@ifmr.ac.in; <http://www.ifmr.ac.in/cmfmf>

Heads the MFI Strategy Unit within CMF, recommended as a contact to discuss implications of BDS linked client financing.

Related Past Consolidated Replies

Sub-Sector Approaches to Livelihood Promotion

from K. Balasubramanyam, CBED, Dehradun (Experiences).

Work and Employment Community. Issued 9 December, 2005

Successful experiences with sub-sector approaches to livelihood promotion, particularly among small/marginal/landless farmers.

Support for Marketing and Business Development

from Metaben Tagjibhai Gadhavi, SEWA, Ahmedabad (Advice).

Cross posted with the Work and Employment Community and Food and Nutrition Security Community. Issued 22 February, 2006

Experiences of designing appropriate business models, strengthening market linkages and influencing Government policy for poor producers' micro-enterprises.



E-Discussion Summary

Query: Client Focused Microfinance for Livelihoods

Compiled by Navin Anand, Resource Person and Monika Khanna and Anjum Khalidi, Research Associates
Issue Date: 10 September, 2008

Guest Moderator: Tara Nair, FWWB India, Ahmedabad

Posted 18 December, 2007

The Indian microfinance sector has grown substantially over the past decade. It has transformed from a fund-starved activity to one that can command patronage of multiple fund providers that include banks, equity investors and donors, both domestic and international. At the same time, there is an increasing concern from some quarters that microfinance programmes in general stand completely disconnected from the needs and priorities of the client communities. Importantly, the search for sustainable business models have led many microfinance players to relinquish the original developmental goals to pursue pure commercial interests, apparently on the assumption that organisational sustainability suggests client sustainability automatically.

A significant aspect of the development impact of microfinance is its link with livelihood. It may be noted that substantial financial resources have already been infused by MFIs in specific regions towards promoting livelihood activities. In the absence of any reliable evidence about the ways in which microfinance works in moulding sustainable livelihood strategies at the client and community levels, the experiences of MFIs are largely looked upon as fragmented anecdotes. This has also severely limited the potential of such experiences to inform important national level policies on livelihood development.

Responses were received, with thanks, from

1. G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad
2. Ramesh Savalia, Centre for Environment Education, Ahmedabad
3. Rajesh Kapoor, Cohesion Foundation Trust, Ahmedabad
4. K. Balasubramanyam, UNIDO - Orissa Cluster Development Programme, Bhubaneswar
5. Santosh Sharma, Formerly with Sa-Dhan, New Delhi
6. Karpagam Sankaranarayanan, Gradatim IT Ventures, Chennai
7. Sarbeswar Sahoo, Kalpatru, Ahmedabad
8. Sanjeev Kumar, Free Lance Development Professional, Lucknow
9. P. K. Thampan, Peekay Tree Crops Development Foundation, Kochi
10. Baladeb Sen, Microfinance Consultant, Chennai
11. Satya Chakrapani, Shikhar Development Services, New Delhi
12. Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur
13. Girija Srinivasan, Consultant, Pune
14. Tara Nair, Friends of Women's World Banking (FWWB), Ahmedabad
15. Debraj Bhattacharya, Panchayat and Rural Development Dept., Government of West Bengal, Kolkata

Further contributions are welcome!

The Proposed Study of FWWB

In this background, an action group has been set up with the Friends of Women's World Banking India (FWWB) as the convener to discuss issues related to developing a livelihood promotion strategy through microfinance which is focused on the poor and marginalised clients. FWWB proposes to do a study to problematise the relationship between microfinance and livelihood so that we could think of more relevant ways of evolving a client focused microfinance approach with livelihood as the central component. The study understands livelihood as the means of gaining a living, including capabilities and assets, both tangible and intangible. Such an expansive interpretation of livelihood necessitates that, apart from income and occupation, issues relating to asset, social security, and investment in health and education are also addressed in the study.

The following are some of the research questions that we consider important to be examined in the context of client-focused livelihood microfinance:

- How does microfinance influence the livelihood of the poor and marginalised?
- How does one determine client's ability to deploy credit as a tangible asset?
- What is the relative significance of thrift and credit in the livelihood framework of poor households?
- How does one ensure that the credit accessed by the client is used in a manner that enhances her ability to cope with the imminent economic needs and the needs that arise from future uncertainties?
- What are the various ways in which the critical livelihood concerns of asset building and social safety nets can be built in the micro credit strategy?
- How has microfinance shaped the livelihood structure in given regions?
- Has it helped the structure diversify in a sustainable and inclusive manner? Or has it fragmented the structure without perceptible gains to any of the intended participants?
- What are the implications of access to credit for the livelihood strategies of client households?
- What are the factors that are critical to make microfinance work for the poor in terms of ensuring a sustainable livelihood?

We request the members of the community to share with us their views and suggestions on the proposal. The collective wisdom of this group would be of

great help to us in identifying the characteristics of livelihood microfinance initiatives focused on poor and marginalised clients and designing an appropriate methodology of research.

Summary of Responses

Responding to the request for inputs on a study looking at client focused microfinance programmes for livelihoods, members stressed the focus of the study needs to be on enhancing understanding of the issue and documenting the ways in which microfinance programmes can influence the livelihoods of poor clients.

Exploring the various issues surrounding client focused microfinance respondents argued that while credit is a necessary condition for promoting small and micro-enterprises, it is not a sufficient condition and can become a financial burden if MFIs provide it without the necessary infrastructure (i.e. education, marketing linkages, social capital). Visualising the strategic value chain activities of different livelihoods, members felt poor entrepreneurs need motivation and support for identification of livelihood possibilities, skill training, and the supply of inputs, equipment, infrastructure, technology as well as marketing related support. Along with financing, clients also need to simultaneously harness other tangible and non-tangible resources in order to make significant change in their lives.

Discussing about designs of projects or initiatives, respondents gave examples of successful national level livelihood focused organisations/MFIs, to convey that there has always been credit plus activities incorporated in the designs of projects. Additionally, respondents also quoted example of traditional traders and master craftsmen, who used to combine financial, input and marketing services for a particular segment of economic activities. Members quoted specific successful examples of existing microfinance and livelihoods programmes, which have contributed towards improvement of lives of the poor.

These examples show two scenarios of integration of microfinance and livelihood interventions. In some cases, change in the level of livelihood activity in terms of scale or number has led to the need for microfinance services whereas in other cases, microfinance intervention has resulted in the promotion of livelihoods. A close cycle of causal relationship between microfinance and livelihood

interventions exists implicitly or explicitly in each project.

Sharing experiences from across the country, respondents highlighted the community-based Economic Development Project in Uttarakhand, where technical support and extension services helped farmers shift from a traditional cropping pattern to cash crops, which enhanced their incomes and ability to save and investment, as well as access credit. Members noted how this project underscores the importance of enhancing the credit absorption capacity of communities to enable investment in livelihoods, especially in remote areas. Another project mentioned came from the Rajkot district in Gujarat, where an NGO used a holistic method of rural financing that is built on the capacities of communities to increase savings and access to credit.

Another example shared was a successful project in Orissa for artisans (in handicrafts and handlooms), who are the primary collectors of Non-Timber Forest Products (NTFPs), to communicate that credit, when integrated with other interventions, aimed at enterprise promotion, helped the communities in building and sustaining their livelihoods. The project provided many other important lessons useful for consideration in the study:

- Direct interventions such as skill upgradation, design development, market linkages, etc. help the artisans to scale up their production and increase their investment in the enterprise.
- A credit need assessment has to be done, looking at the business cycle of the enterprises. Right amount of credit enables artisans to invest the amount in the enterprise and ensure regular repayment, whereas excess amount of credit led the artisans to invest the amount in consumption, affecting the repayment adversely. Absence of a good repayment collection system affects loan repayments.
- It is important for MFIs to design loan products so that it fits into business needs of different sectors/clusters. Entrepreneurs also require training and financial counselling before providing credit.

Discussants also shared lessons from another cluster for the Sal leaf plates and cups cluster in Baripada, Mayurbhanj district which include:

- Regular thrift by the members of the groups and converting their savings into assets is important.
- Microfinance combined with money management

and BDS ensures better usage of credit and thrift leading to asset building and business growth.

- Health and life insurance coverage is required by majority of the entrepreneurs.

Through the example of vegetable vending and trading activity, respondents highlighted the issue of private competitors and requirement of maintaining certain standard practices unique to the business. Members narrated an interesting story of Rami Bheel, a member of an SHG in southern Rajasthan to explain that there is a need of reliable source of livelihoods, market to sell products, access to basic services, micro insurance and savings services than just another loan. Respondents recommended that the MFIs, which are into promotion of livelihoods of poor, will have to undertake savings, insurance, remittance and other products, in addition to credit. Also, there is a need for exploring the products of equity as well as debt instruments, futures and other commodity management instruments.

Discussants mentioned that sustainability of any development initiative and success of microfinance project is possible only when the participants change their role from passive beneficiary to active managers of one's own enterprise, build entrepreneurial skills and adopt collective actions. Commenting on the suggestive questions to be covered in the study, members have come up with following views:

- For livelihoods of poorest of poor, few major inputs need to be ensured: building self confidence and motivation; basic business skills and linkages; technical and market knowledge; and a fund to bear initial loss/risk of business.
- Microfinance agencies need to have a clear strategy on the issue of credit utilisation and overcoming future uncertainties.
- Market risk can be controlled through an in-depth analysis therefore, it is important to analyse the local market and commodity chain to have the maximum advantage with limited risk.
- Asset building through microfinance for the poor seems to be difficult, however, microfinance helps the entrepreneurs to expand their enterprises.
- The microfinance sector should be provided with appropriate legal framework to perform more effectively.

Respondents discussed regarding the innovative ways to amalgamate social security with credit. Discussants also stressed on the fact that the success

of the micro-financing system depends on the type of organisation, their ideology and emphasis and steps adopted for organisational development. Highlighting the importance of proper monitoring and evaluation systems for efficient management of the microfinance linked business and for assessment of benefits accrued to the participants, respondents stressed on the importance of evaluating the significance of micro credit in different local economic and social contexts and in terms of integrating various interventions.

Discussants also outlined several areas of concerns:

- Financial innovation for providing financial services at the doorstep to the poor.
- Coverage of ultra poor by the NGOs.
- Role of thrift and credit as means to ultimately promote livelihoods and in ensuring the consumption investment cycle effectively.
- Livelihood promotion and the connected infrastructure building process/social investment made by the NGOs.

Members expressed the need for clearly defining the term 'livelihoods'; incorporating regional and organisational dimensions in the study; and studying the livelihood value chain so as to detect how, when and where microfinance worked as a livelihood enhancing intervention.

Respondents opined to cover few specific aspects such as cluster development, sustainability of livelihoods, livelihood security index and gender in the study. They reiterated the importance of incorporating multiple approaches within the study to bring out clearly the links between factor and product markets and investment in social infrastructure. Respondents recommended for case study documentation as it will help to understand the impact of microfinance for marginalised people. They have also suggested for using the 'Nine-Square Mandela Framework' for framing the questions.

Overall, members argued the study must focus on enhancing understanding of the issue and documenting ways microfinance programmes can influence the livelihoods of poor clients.

Comparative Experiences

Andhra Pradesh

(from G.V. Krishnagopal, Access Livelihoods Consulting Private Limited, Secunderabad)

Bringing Change through Cooperation, Karimnagar

The Mulkanoor Cooperative Rural Bank and Marketing Society Ltd (MCRB&ASL) identified 14 villages based on proximity, irrigation backwardness, non-availability of resources and prevailing drought condition. The Society serves members by providing financial, marketing, input, consumer and welfare services. Today, MCRB&MSL has more than 6,166 active members and a share capital of Rs. 2.2 crore.

Fishermen Societies Serving Financial and Technical Needs of Fisher Folk

The South Indian Federation of Fishermen Societies, a producer collective model, supports the livelihoods of fisher folk through serving their credit, insurance, savings and fish marketing needs. Loan repayment is based on the percentage of fish catch and not on a fixed installment basis. This system of credit allows fishermen to cover the costs related to the purchase, repair and maintenance of fishing equipment, post-harvesting activities and other consumption needs.

(from K. Balasubramanyam, UNIDO - Orissa Cluster Development Programme, Bhubaneswar)

Uttarakhand

Integrated Approach for Mountain Region Increases Incomes

Small and marginal farmers were organised into producer groups and self-reliant cooperatives to undertake collective marketing and procurement services. The producer groups and cooperatives were then linked to banks and MFIs for accessing microfinance and insurance services. Moreover, members regularly save and then invest these amounts in assets, primarily in livestock. This integrated approach has resulted in an increase in income levels and asset building.

Orissa

Linkages with Banks/MFIs Expands Microfinance Services

UNIDO's diagnostic studies of Cluster Development Programme revealed, the lack of access to credit was a major constraint facing artisans, attempting to expand their enterprises. To help address, the Programme organised artisans into SHGs, Joint Liability Groups, and linked them with MFIs and banks. They also engaged in direct interventions, like skill upgradation, design development and market exposure. These interventions have helped artisans to double the production and generate additional employment.

Gujarat

Gram Nidhi Promotes Eco-Entrepreneurship, Jasdhan Taluka, Rajkot

(from Ramesh Savalia, Centre for Environment Education, Ahmedabad)

The Centre for Environment Education (CEE) has been working in villages around the Hingolghadh Sanctuary. In these villages, local youth and women are formed into village institutions called Paryavaran Vikas Mandals (PVMs). The PVM members are educated on issues of sustainability, communication and managerial skills. As a result, it has helped 350 members in savings and credit.

Related Resources

Recommended Documentation

(from Navin Anand, Resource Person)

Sustainability of Microfinance Interventions

Paper; Sa-Dhan Microfinance Resource Centre; New Delhi; 2005

To avail a copy, contact Sa-Dhan Microfinance Resource Centre, 12 &13, Special Institutional Area, Shaheed Jeet Singh Marg, New Delhi-110067

Discusses the financial sustainability of MFIs targeting the poor and their impact on the incomes of the poor.

Sustainable Livelihoods and Microfinance

Paper; Sa-Dhan Microfinance Resource Centre; New Delhi; 2005

To avail a copy contact Sa-Dhan Microfinance Resource Centre 12 &13 Special Institutional Area Shaheed Jeet Singh Marg, New Delhi-110067

Examines the livelihood framework and possibilities of microfinance at the different levels; impact assessment of the microfinance activities.

Promoting Sustainable Livelihoods

Book; Edited by S. Rajagopalan; ICFAI University Press; Hyderabad; 2006

To avail a copy contact 52, Nagarjuna Hills, Punjagutta, Hyderabad, India-500 082

Examines the concepts in promoting sustainable livelihoods and presents related case studies.

(from Monika Khanna, Research Associate)

Micro Finance for Urban Poverty Reduction

Paper; by L. Mayoux, M. Jiri and Cerqueira; One World Action – Gender and Microfinance Resource Page; Location; 2002

Available at http://www.microfinancegateway.org/files/21626_angola_mf.pdf

Discusses the impact of Sustainable Livelihoods Project (SLP) in Luanda, Angola, that is being implemented by Development Workshop Angola and One World Action.

A Promise to Pay the Bearer

Paper; Michael and Susan Dell Foundation; CARE India and ICICI Bank; Intellect; 2006

Available at <http://microfinancegateway.org/content/article/detail/37532>

Analyses microfinance as a socio-commercial instrument for addressing urban poverty challenges in India

Microfinance for Poor

Newsletter; Focal Point for Microfinance; Asian Development Bank (ADB); March 2008

Available at <http://www.adb.org/Documents/Periodicals/Microfinance/finance-200801.pdf>

Shares the experiences from Bangladesh and Uzbekistan on participation of poorest in the microfinance programmes.

Recommended Organisations and Programmes

(from G.V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad)

Mulkanoor Cooperative Rural Bank and Marketing Society Ltd., Andhra Pradesh

Mandal: Bheemadevarapally, District: Karimnagar, Andhra Pradesh; Tel: 91-8727-248222/41; Fax: 91-8727-248221; info@mcrbms.org; http://www.mcrbms.org/services_and_activities.asp

Aims to empower farmers by extending activities like help in soil testing, pest attack, introduction of new agricultural practices, animal husbandry and crop seminars.

South Indian Federation of Fisherman Societies

5-20-K, Mukund Apartments, Eranjipalam Post, Calicut-673006, Kerala; Tel: 0495-368789; sifrom@siffs.org; <http://www.siffs.org/Index.aspx?Page=CreditProducts.aspx>

Apex body of organisations of small-scale artisanal fish workers aims at the enhancement of livelihoods of fishing communities using appropriate technology and microfinance services.

Development of Humane Action (DHAN) Foundation, Madurai

18, Pillaiyar Koil Street, S.S. Colony, Madurai-625

016, Tamil Nadu; Tel: 91-452-2610794/805; Fax: 91-452-2602247; dhan@md3.vsnl.net.in; <http://www.dhan.org/themes/index.php>

Foundation works towards bringing significant changes in the livelihoods of the poor through innovations in themes and institutions.

Centre for Environment Education, Nehru Foundation for Development, Ahmedabad

(from Ramesh Savalia, Centre for Environment Education, Ahmedabad)

Thaltej Tekra, Ahmedabad-380054, Gujarat; Tel: 91-79-26858002; Fax: 91-79-26858010; cee@ceeindia.org; <http://www.ceeindia.org/cee/index.html>

Institution engaged in developing programmes and material to increase awareness about the environment and sustainable development.

(from Girija Srinivasan, Consultant, Pune)

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 91-40-30512500/1; Fax: 91-40-30512502; info@basixindia.com; <http://www.basixindia.com/arc.asp>

Livelihood promotion institution, providing microfinance and technical services and conducts applied research on livelihoods and impact studies in microfinance sector.

BAIF Development Research Foundation, Pune

Dr. Manibhai Desai Nagar, Warje, Pune-411058, Maharashtra; Tel: 91-20-25231661; Fax: 91-20-25231662; baif@vsnl.com; http://www.baif.org.in/aspx_pages/index.asp

Organisation working for creating opportunities of gainful self-employment for the rural families through livestock, watershed and land resource development.

(from Dedraj Bhattacharya, Panchayat and Rural Development Department, Government of West Bengal, Kolkata)

Ministry of Rural Development, New Delhi

Krishi Bhawan, New Delhi-110001, Tel: 91-11-23782373, 23782327; Fax: 91-11-23385876 <http://www.rural.nic.in>

Initiated SGSY, an anti-poverty alleviation programme that provides micro credit and group insurance services to the poor through SHGs.

CARE-CASHE Project, New Delhi

27, Hauz Khas Village, New Delhi-110016, Tel: 91-11-26566060/26564101; Fax: 91-11-26564081/26529671; cbox@careindia.org; <http://careindia.org/ManageProgrammeKey/VisitProgrammeCategory.aspx?CategoryID=3>

CARE India's largest microfinance initiative aims to significantly enhance the incomes and economic security of poor rural women and their households through microfinance services.

United Nations Industrial Development Organisation (UNIDO), New Delhi

(from K.Balasubramanyam, UNIDO - Orissa Cluster Development Programme, Bhubaneswar)

P.O. Box 3059, 55 Lodi Estate, New Delhi-110003, Tel: 91-11-24643484; Fax: 91-11-24620913; office.india@unido.org; <http://www.unido.org/office/india>

Organisation promoting the creation of wealth and tackling poverty alleviation through manufacturing and overall growth of small and medium enterprise sector.

Related Consolidated Replies

Urban Microfinance and Employment, from Santanu Sengupta, Micro Money Management Enterprise, Kolkata (Experiences)

Microfinance Community and Work and Employment Community

Issued 26 March, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-emp-06020801.pdf>

Discusses the various urban-specific vulnerabilities that the urban poor face; activities for sustainable urban employment and learnings to consider for urban microfinance interventions.



Poverty

Microfinance Community and Work and Employment Community



Consolidated Reply

Query: Urban Microfinance and Employment-Experiences

Compiled by Ranu Bhogal, Resource Person and Arif Hussain and Anjum Khalidi, Research Associates
Issue Date: 26 March, 2008

From Santanu Sengupta, Micro Money Management Enterprise (MMME) – Change Innovators, Kolkata

Posted 6 February, 2008

Dear Community members,

Urban unemployment continues to soar and has reached alarming proportions. Several NGOs and government programmes have been working on these issues, and urban microfinance – whether for thrift or consumption, has been successful and shows potential.

The Kolkata Municipal Corporation plans to launch a pilot project in order to assess how funds for income support and employment generation can be channelled in synergy with microfinance activities. The idea is to support participatory asset formation for sustainable self-employment in the services sector. This pilot project is the first real test of an ‘under discussion’ programme ‘Micro for Macro’ that would like to support and promote urban employment in the services sector in conjunction with microfinance activities. Urban areas under consideration are metros, big second tier cities and later tier three and tier four cities.

Starting mid-February, we plan to organise a series of workshops and seminars on urban microfinance, and its synergies with livelihood promotion. I request members to share experiences on promoting urban livelihoods, specifically on:

- Activities that can generate sustainable self-employment
- Lessons learned in promoting formal employment or self-employment
- Project funding methodologies and institutional formats for ownership of assets created.

Case studies (not big ticket Rs. 50,000+) as well as cases under BSKP in West Bengal or in other states would be especially helpful, as they would help us understand the practices followed in detail.

Inputs from members would be especially helpful in the design of the pilots and would feed into the upcoming workshop/seminar series. Contributions from members included in the formal documentation would be formally acknowledged.

Responses were received, with thanks, from

1. N. Jeyaseelan, Microfinance Consultant, Srivilliputhur
2. Sachin Kumar, MicroSave, Lucknow
3. V. Sarat Patnaik, A. P. Grameena Vikas Bank, Visakhapatnam
4. Kirti Prasanna Mishra, MART, Noida
5. Ali Asghar, Roshan Vikas Foundation, Hyderabad
6. S. Nirmala, The Livelihood School - BASIX, Bangalore
7. Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur
8. Vineet Rai, Intellectap, Mumbai
9. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Response 1; Response 2; Response 3)
10. Baladeb Sen, Microfinance Consultant, Chennai
11. Sarbeswara Sahoo, Mahatma Gandhi Labour Institute, Ahmedabad
12. Sharad K. Mishra, CEDMAP, Bhopal

Further contributions are welcome!

Summary of Responses

Discussing urban microfinance services and employment generation, members highlighted that more than 40 percent of the population in India will soon live in urban areas and that currently more than 90 percent of the total workforce is employed in the informal sector. These workers tend to have poor or limited access to formal sources of credit, which generally increases their need for microfinance services to generate self-employment opportunities.

Participants pointed out the urban poor are often more vulnerable than the rural poor due to lack of tenure rights, poor sanitation, limited access to basic services, and less community support. Informal sector workers also lack space, legal protection, economies of scale, knowledge of the market, and a social base – all key factors for a sustainable and secure livelihood. Though the urban poor are close to the markets, they are often too small and dispersed to play a very significant role in the value chain. This adds to their marginalisation.

Members noted there are two clear drawbacks to the existing system of microfinance. One issue is the weekly or fortnightly repayment requirement and second, MFIs having a low risk appetite, both of which do not allow borrowers to make productive investments in assets and even if the borrower is able to invest in assets, it may not help them repay the loan. Furthermore, microfinance organisations in urban areas face the challenge of migration and SHGs becoming defunct due to unemployment/underemployment, because they do not have sufficient training or proper outlets to sell their produce at a profitable price.

Nevertheless, discussants emphasised the importance of understanding that microfinance services are necessary because it helps to bridge the gap left by formal financial service providers and gives those excluded from the fold of financial services access to financial services. Access to financial services provides the poor with an opportunity to find a way out of poverty.

Discussants highlighted activities that can help SHGs generate sustainable self-employment such as food processing, trading in construction materials, automobile repair, carpentry, plumbing, repair of electrical equipment, childcare, retail (in department stores), beauty parlours, petty trading, and event management. For example, in Visakhapatnam City in Andhra Pradesh, a Bank successfully provided training in how to make home foods, pickles,

sweets, etc. and assisted in the marketing of the finished goods. Another experience showcased an intervention where raw materials were supplied to SHGs in Visakhapatnam City to start a tamarind unit, which was then linked with Girijan Corporation who then bought the packaged products in bulk.

Drawing from their work with urban employment generating activities, members shared several learnings to consider when looking at urban microfinance. The credit requirements of the urban poor tend to be somewhat larger as compared to their rural counterparts, where the average rural microfinance client is able to effectively utilise a Rs. 25,000 loan. Due to the lack of community support and networks, respondents suggested promoting Joint Liability Groups (JLGs), in cases where it is not possible to form SHGs.

Members also emphasised urban-specific obstacles when providing microfinance services to reduce the vulnerabilities faced by the urban poor. Despite having a seemingly higher income, the urban poor encounter additional costs associated with living in a city, such as the higher cost of living (because of the highly monetised access to goods and services); exclusion from public services because of the extra-legal status of many urban settlements; the need to procure private healthcare services due to lack of public services; higher opportunity cost of having to wait for public services; the high and recurrent cost of bribes and other informal payments; insecure sources of income; and increased risk of harassment by officials, owing to the extra-legal living and working conditions of many of the urban poor.

Other indirect costs influencing the provision of microfinance include higher health costs of living in unhealthy environments, with inadequate water supply, sanitation, drainage and solid waste collection. Moreover, their dwellings place them at high risk for eviction (and its associated consequences) and are also extremely vulnerable to natural hazards, such as floods and earthquakes.

In addition, discussants explained the problem is complicated due to poor infrastructure, inadequate management by urban authorities and weak urban local bodies, which result in the urban poor having less money to spend on basic necessities.

Members also shared several examples (in Tamil Nadu, Madhya Pradesh and Karnataka) of microfinance

and employment interventions for the urban poor that successfully addressed the unique challenges outlined above.

As a result of the complexity of the issues faced by the urban poor, an effective microfinance programme requires a good understanding of the causes, conditions and dynamics of urban poverty. Thus, participants highlighted key strategies to help MFIs serve the most vulnerable of the urban poor:

- Insulate MFIs from politics/crime to ensure their clients are crime-free.
- Provide community support to help MFIs counter the volatility in the urban environment.
- Create appropriate local information networks to overcome information asymmetries.
- Employ low-cost local field workers to achieve greater acceptability/trust from clients.
- Use a teller model to reduce the high costs of the Grameen-type doorstep outreach system.
- Make an effort to understand the credit needs of the clients, types of livelihoods available, amount of interest they are required to pay, etc.

Finally, respondents pointed out that although the RBI has permitted banks to allow informal SHGs to open deposit accounts, SHGs face difficulty in registering their ownership of assets with local authorities.

Members concluded by noting that while microfinance has limitations in addressing the intricate range of issues of urban poverty and unemployment, microfinance is an important tool to help the urban poor “smooth” their financial needs during emergencies. Discussants added that MFIs can also play a critical role in the facilitation of business expansion and employment generation.

Comparative Experiences

Andhra Pradesh

Generating Sustainable Urban Self-Employment, Visakhapatnam

(from V. Sarat Patnaik, A.P. Grameena Vikas Bank, Visakhapatnam)

A. P. Grameena Vikas Bank has 11 city branches and has covered 80 percent of the businesses in Visakhapatnam through its SHG outreach programme. In its Allipuram branch, outreach extends to 1,200 SHGs covering more than 20,000 women, mainly living in slums. The Municipal Corporation is providing

training to the SHGs and maintaining the books through its animators and coordinating officers. It is now linking SHGs to banks and has launched the Andhra Pradesh Government’s “pavala vaddi” scheme.

Madhya Pradesh

“Mini Bharat” Concept Empowers SC/ST Communities

(from Sharad K. Mishra, CEDMAP, Bhopal)

An NGO is using the “Mini Bharat” concept to work with the urban poor, mostly SC/ST communities to help them purchase land at nominal rates and repay the loan with monthly installments. Free skills training is also provided to the beneficiaries so that they are able to repay the loan after getting a job on the basis of their enhanced skills. Beneficiaries are now able to identify available work with traders and business persons.

Karnataka

Collective Organising of Urban Workers, Bangalore

(from S. Nirmala, The Livelihood School - BASIX, Bangalore)

A livelihood development initiative, Maya Organic has been working with the urban poor by promoting collectives of garment workers. It offers centralised support in the areas of marketing, design, product development and in establishing quality systems for production. Its innovation is in building a network of the workforce and markets that facilitates an exchange of vital information on the availability of work, and enhancing skillsets.

Tamil Nadu and West Bengal

Exclusive Bank Branch for Urban Microfinance

(from N. Jeyaseelan, Microfinance Consultant, Srivilliputhur)

Three years ago, the Indian Bank set up an exclusive branch dedicated to providing urban microfinance services called Micro Sat in Chennai. Micro Sat has now crossed the break-even point, helping many SHGs to gain employment. Based on this experience, the Bank expanded the network of Micro Sat branches across India, including a branch in Kolkata in partnership with the Kolkata Corporation.

Related Resources

Recommended Documentation

A Promise to Pay the Bearer: An Exploration of the Potential for Urban Microfinance in India

(from Sachin Kumar, MicroSave, Lucknow)

Study; by Michael & Susan Dell Foundation, CARE India and ICICI Bank; Intellect; 2006

Available at <http://microfinancegateway.org/content/article/detail/37532>

Analyses microfinance as a socio-commercial instrument for addressing urban poverty challenges in India.

Life at the Bottom of Pyramid Series on Livelihoods and Financial Exclusion: The Case Study of Sarju Bai Prajapati

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai; response 1); by Ramesh Arunachalam et al; 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06020801.pdf>

Case study sharing the experience of Sarju Bai Prajapati, an urban livelihoods and microfinance intervention, which illustrates the complexities faced by the urban poor.

Recommended Organisations and Programmes Indian Bank MicroSat Branch, Chennai

(from N. Jeyaseelan, Microfinance Consultant, Chennai)

P.B. No.1384, 66, Rajaji Salai, Chennai-600001, Tamil Nadu; Tel: 044-25233231/25231253/25231254; Fax: 044-25231278; indianbank@vsnl.com, indbank@vsnl.com, ibm156@vsnl.net; <http://realtynews.sulekha.com/blog/post/2007/07/indian-banks-diving-towards-retail-industry/comments.htm>

Opened its first exclusive urban microfinance branch in Chennai called MicroSat which has now been expanded across the country, including Kolkata to help generate income for the urban poor.

(from Sachin Kumar, MicroSave, Lucknow)

Bandhan, Kolkata

AB-48, Sector 1, Salt Lake City, Kolkata-700064, West Bengal; Tel: 33-23344613; Fax: 33-23347602; bandhanindia@gmail.com; http://www.bandhanmf.com/micro_enterprise.html

Offers a microloan product and a microenterprise programme for relatively more mature microfinance clients, targeting the urban poor for sustainable livelihoods.

Village Welfare Society (VWS), Kolkata

Village Tower, F-15, Geetanjali Park, 18/3A Kumud Ghosal Road, Ariadaha, Kolkata-700057, West Bengal;

Tel: 033-25646545/25645786; Fax: 033-25443240; info@villagewelfare.com;

<http://www.villagewelfare.com/methodology.php>

VWS has 18 branches in five districts of West Bengal, and provides credit, social security and other credit plus services working with both the urban and rural poor.

Arohan, Kolkata

716 Jogendra Garden, Kasba, Kolkata West Bengal;

Tel: 033-64500735; info@arohan.in;

<http://www.arohan.in/companyprofile/index.php>

Provides financial services to socio-economically disadvantaged sections to improve the quality of life for its beneficiaries in urban areas of West Bengal.

Municipal Corporation Visakhapatnam, Visakhapatnam

(from V. Sarat Patnaik, A.P. Grameena Vikas Bank, Visakhapatnam)

<http://www.visakhapatnammunicipalcorporation.org/>

Provides training in home servicing for uneducated women, computer training for the semi-literate, and helps the urban poor women find employment in various industries.

Kolkata Urban Services for the Poor, Kolkata

(from Kirti Prasanna Mishra, MART, Noida)

ILGUS Bhavan, HC Block, Sector 3, Bidhan Nagar, Kolkata-700106, West Bengal; Tel: 033-23378723/6226; Fax: 033-23377318; contact@changeekolkata.org, kuspcmu@vsnl.net; <http://changeekolkata.org/urbanpoor.html>

Provides microfinance and non-financial services to generate employment and increase the socio-economic status of the urban poor in the Kolkata Metropolitan Area.

Roshan Vikas Foundation, Hyderabad

(from Ali Asghar)

20-4-104/4/1, 2nd Floor, Near Charminar Bus Stand, Hyderabad-500002, Andhra Pradesh; [http://www.social-impact.org/documents/factsheets/SII_RoshanVikas_fact_sheet.v3\(WM\).doc](http://www.social-impact.org/documents/factsheets/SII_RoshanVikas_fact_sheet.v3(WM).doc)

Promotes community-based microfinance in urban areas, focuses on capital generation, economic empowerment of women and building community ownership.

(from S. Nirmla, *The Livelihood School - BASIX, Bangalore*)

Maya Organic, Bangalore

#25/1-4, 9th Cross, JP Nagar, II Phase, Bangalore–560078, Karnataka; Tel: 80-26492275; mayaind@gmail.com; <http://mayaindia.org/perspect.htm>

Works with the urban poor by promoting collectives of garment workers in Bangalore; offers centralised support in the areas of marketing, design and product development.

Working Women's Forum, Chennai

55, Bhimasena Garden Street, Mylapore, Chennai–600004, Tamil Nadu; Tel: 44-24992853/24993937; Fax: 44-24992853; http://workingwomensforum.org/wwf_strategies.htm; Contact Dr. Jaya Arunachalam; wwforum@eth.net

Works with poor urban women in Tamil Nadu, Karnataka and Andhra Pradesh in the areas of unionisation, credit and savings, reproductive healthcare, and other training services.

Dhan Foundation, Madurai

18, Pillaiyar Koil Street, S. S. Colony, Madurai–625016, Tamil Nadu; Tel: 452-2610794/805; Fax: 452-2602247; dhan@md3.vsnl.net.in; <http://dhan.org/themes/kalanjiam.php>

National organisation working with the urban poor in Tamil Nadu and Andhra Pradesh through its Kalanjiam Community Banking Programme.

Friends of Women's World Banking, Ahmedabad

(from Sarbeswara Sahoo, *Mahatma Gandhi Labour Institute, Ahmedabad*)

101, Sakar- I Building, Opp. Gandhigram Station, Ashram Road, Ahmedabad–380009, Gujarat; Tel: 79-26580119, 26584199; Fax: 79-26580119; http://fwwbindia.org/site/what_we_do.html

Held a consultation on urban microfinance and livelihoods, and focuses on microfinance lending, capacity building and social security for its clients from poor urban backgrounds.

Related Consolidated Replies

Skill Development and Vocational Education for Sustainable Livelihoods, from Pooja Gianchandani, CII, Gurgaon (Experiences; Referrals)

Work and Employment Community. Issued 29 December, 2006

Available at <http://www.solutionexchange-un.net.in/emp/cr/cr-se-emp-25120601.pdf>

Provides case studies, success stories, approaches on skill development and vocational education for sustainable livelihoods, and refers relevant documents and organisations.

Strategies to Motivate Youth for Vocational Education and Training, from R. S. N. Sharma, Functional Vocational Training and Research Society, Bangalore (Experiences)

Work and Employment Community

Issued 14 May, 2007

Available at <http://www.solutionexchange-un.net.in/emp/cr/cr-se-emp-17040701.pdf>

Outlines successful strategies to motivate and orient youth for vocational training and experiences on changing attitude of youth to attend vocational courses.

Redesigning GoIs Urban Employment/Livelihoods Programme, from Alkesh Sharma and Ashok Malhotra, GoI-UNDP Project 'National Strategy for Urban Poor', New Delhi (Advice)

Work and Employment Community. Issued 25 May, 2007

Available at <http://www.solutionexchange-un.net.in/emp/cr/cr-se-emp-01050701.pdf>

Provides advice on redesigning the Government of India's urban self-employment programme, SJSRY, specifically on aspects of self-employment and employability.

Model for Urban Microfinance, from Varda Pandey, National Institute of Urban Affairs, New Delhi (Advice)

Microfinance Community.

Issued 2 August, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-16070701.pdf>

Covers government interventions and lending rates in microfinance, shares experiences in savings mobilisation and raising capital within the legal framework.

II. *Microfinance in Sub-Sectors of Livelihoods*



Consolidated Reply

Query: Micro-Enterprise Development for Mature Microfinance Clients – Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate

Issue Date: 22 February, 2007

From N. Jeyaseelan, Indian Bank, Madurai

Posted 29 January, 2007

Dear Members,

I work with the Government-owned Indian Bank. While working with IBSUM (Indian Bank's Special Unit for Microfinance) project (2001-2005), the project team implemented SHG Bank Linkage Programme (SBLP) at Usilampatti in Tamil Nadu. As of November 2006, the bank has supported over 1,000 SHGs with Rs. 7.5 crore of outstanding loans. Having worked with the project since its beginning, I made the following observations:

SHG members generally use most part of their loans for meeting their consumption needs and the rest of the loan for doing some economic activities, mostly in small trading activities.

When the members took up growth-oriented new micro-enterprises with a larger outlay, most of them failed in various stages because of reasons like lack of marketing, poor packaging, inability to maintain standards for the products, lack of market knowledge, lack of backward and forward linkages and so on.

It shows that they do not need just one short training but also handholding support for quite some time to take up growth oriented micro enterprises. Besides, the per family SHG loans will have to be raised from the present average of Rs. 3,300 per family to at least Rs. 10,000 per family and later to Rs. 25,000 per family. But to realise this I have the following questions:

- How we can graduate our matured SHGs (those which are more than three years old and have repaid two bank loans successfully) from the

micro-credit stage to micro-enterprise stage so that larger investments would go into the rural area and will generate more additional employment opportunities for the rural poor?

- Have any of the members tried out the sub-sector approach of micro-enterprise development in their microfinance programmes?

I request the members to share their experiences taking above concerns into account.

Responses were received, with thanks, from

1. Alok Pattanayak, Centre for Development of Small and Micro Enterprises, Xavier Institute of Management, Bhubaneswar
2. Sasidhar N. Thumuluri, MicroVest Capital Management LLC, United States of America
3. Vikash Kumar, Grameen Koota, Bangalore
4. Sarwat Hussain Naqvi, CARE India, Rajasthan
5. K. Loganathan, Association for Sustainable Community Development, Chengalpattu
6. Sujoy Chaudhury, GOAL, India Field Office, Kolkata
7. Sarika Saluja, Council for Advancement of People's Action and Rural Technology (CAPART), Saharanpur
8. Balakrishnan, Catalyst Management Services Pvt. Ltd., Bangalore
9. Pramel Gupta, Samavesh, Bhopal
10. Madhan Kumar, DHAN Foundation, Madurai

Further contributions are welcome!

Summary of Responses

Sharing their insights on micro-enterprise development for microfinance clients from mature SHGs, members cited experiences of SHG clients taking up micro-entrepreneurial activities facilitated by MFIs. In addition, they highlighted challenges in Micro-Enterprise Development (MED), ways to tackle them, and sub-sector approaches (e.g. promoting micro-enterprises based on cotton, groundnut sub-sectors in agriculture sector) that influence the sustainable growth of micro-enterprises.

Members shared examples from Orissa, Haryana and Tamil Nadu where NGO-MFIs are supporting SHGs to graduate from the micro-credit to micro-enterprise stage. These examples demonstrated that micro-credit is insufficient for the economically active poor clients to get out of poverty. They argued that the poor require different skills (business planning, marketing and management skills, ability to identify business opportunity, conduct market surveys, etc.) to sustain their business activities in the long run. Respondents also stressed that the absence of micro-enterprise services prohibits growth and defeats the objective of poverty alleviation by providing microfinance.

While appreciating the significant role that MED plays in strengthening the livelihoods of microfinance clients, members suggested considering the following points when designing micro-enterprise services for SHG clients:

- It is important not to assume that all mature SHGs (ones that successfully repaid three loan cycles) want to be entrepreneurs' SHGs. Entrepreneurship skills trainings need to be given to only SHG members who have utilised loans for productive purposes.
- MFIs need to have a very clear objective from the beginning that they are developing micro-enterprise, not merely promoting micro-credit activities.
- MFIs could analyse the potential of an SHG to start a group-based enterprise before starting MED, to help them select SHG members for micro-enterprise support activities, while the rest of the SHG members observe and can join the enterprise activities later.

Challenges: Members noted that today, accessing credit is not a limiting constraint for SHGs; however, developing micro-enterprise among SHGs remains a challenge. They emphasised that the transition from first generation SHG (SHGs receiving micro credit for

the first time) to a mature fourth generation SHG (SHGs which have received micro-credit services four times) is often a Herculean and time-consuming task. Micro-enterprise support requires continuous, intensive technical guidance. Moreover, if SHG members receive entrepreneurship development training, there is often a lack of follow-up facilities and handholding support (i.e. capital, market linkages, technical information and marketing techniques) available.

Sharing a study from Karnataka, members noted some other key challenges in course of taking up group enterprises with microfinance clients. These clients had:

- A risk-averse mindset
- Inadequate capital
- Networking problem (i.e. with raw supplier to buyer of products)
- Insufficient management and marketing skills
- Low levels of motivation and courage.

Overcoming Challenges: For effective MED, discussants underlined the importance of having Entrepreneurship Development Programme and skills training, and microfinance and marketing linkage support available under one roof. They noted that an entrepreneur or group of entrepreneurs pass through different stages during the process of setting up new ventures. For example, a training programme operating in several states helped NGO-MFIs provide their microfinance clients different sets of skills for successfully running enterprises, starting from business opportunity identifications and planning to conducting market survey and providing managerial skills. Members stressed that organised enterprise development support including motivation, and skill and capacity building are necessary for running any enterprise. To facilitate the transition from borrower to entrepreneur, respondents recommended NGO-MFIs do the following:

- Begin by gradually providing micro-credit for livelihood support and micro-enterprise development.
- Encourage only such SHG members who utilise the loans for productive purposes and have the potential to become entrepreneurs.
- Provide an orientation on the basics of micro-enterprise management and an enabling environment, including choices for setting up micro-enterprises.
- Build the vision and capacities of SHGs during every loan cycle so that SHGs repay in a timely manner and increase the loan capacity amount for productive activities.

- Facilitate and help SHGs to form federations or multi-state cooperatives based on their wealth, experience, expertise and willingness.
- Establish a network of SHGs to serve as a “self-help community” for micro-enterprise development activities.

Sub-Sector Approach: Participants recognised the sub-sector approach as a means for sustainable growth of micro-enterprises. Members felt it is essential to organise or federate these group members based on the economic activity such as dairy farming, retailing, trading, agriculture, etc. This re-organisation of SHGs, might be risky and cumbersome, but is inevitable. Additionally, this would help MFIs to impart BDS and monitor productive loan usage patterns.

In addition, respondents pointed out the important role economically sustainable institutions play in imparting business management skills to microfinance clients. They also identified the crucial role of banks adopting unconventional strategies and methods and seeking partnerships with NGO-MFIs and other institutions as in Gujarat and Orissa. Members agreed that such healthy and symbiotic partnerships between banks and NGO-MFIs would help poor clients to access microfinance as well as enterprise training and handholding. Finally, respondents noted that the sustainable growth of enterprises depends on adequate infrastructure like power, road, cold storage, transportation and information.

In short, members appreciated the significant role of micro-enterprise development services for the mature microfinance clients having potentials to set up group-based or individual micro-enterprise. Besides, they also underlined the collective efforts of MFIs, technical and training institutions for sustainable growth of micro-enterprises.

Comparative Experiences

Karnataka

Analysing the Potential of Women Entrepreneurs for Group Micro-Enterprise

(from Vikash Kumar, Grameen Koota, Bangalore)

In December 2006, Grameen Koota conducted a value chain analysis in Mysore and Nanjangud districts on incense stick products. The study found women clients involved contractually (earning Rs. 50 per day) in production and packaging of incense sticks, while a contractor was providing raw materials to them.

Grameen Koota then studied the support required to graduate the women to group-enterprise activity, e.g. capital, market linkages, and management and marketing skills.

Tamil Nadu

NGO Efforts to Graduate SHG Members from Borrowers to Entrepreneurs

(from K. Loganathan, Association for Sustainable Community Development (ASSCOD), Chengalpattu)

ASSCOD, after promoting more than 170 SHGs in Thiruvannamalai district, started implementing four Rural Women Entrepreneurship Development Programmes (EDP). The programme generated a lot of enthusiasm among the women entrepreneurs to get involved in small business development activities. They will now get marketing support through volunteers who will identify markets for their products.

Haryana

Forest Department Promoting Micro-Enterprise Development

(from Sarika Saluja, Council for Advancement of People's Action and Rural Technology (CAPART), Saharanpur)

Since 1999, the Haryana Forest Department, with financial assistance from the European Community, has nurtured over 158 SHGs in 92 villages of 11 districts in the state. Almost 97 percent of the SHGs have graduated from internal savings and lending to income generating activities. The cumulative income of the 1,300 SHG members is close to Rs. 3.8 million from enterprises such as vermi-compost, dairy, shops, tailoring, soap and detergent making.

Orissa

Graduating SHGs from Micro-Credit to Micro-Enterprise

(from Alok Pattanayak, Centre for Development of Small and Micro Enterprises, Xavier Institute of Management, Bhubaneswar)

Gram Utthan, an NGO-MFI based in Kendrapara district is managing more than thousand SHGs. The organisation started micro-enterprise activities with 50 women through Kalyani Packaging Centre (KPC) in March 2006. The centre purchases fast moving consumer goods items in bulk and sells them to 100 groceries while keeping their profit margin. The objective of KPC is to provide low cost and quality household provisions to 50,000 families.

MFI Sets-up Resource Centre to Support SHGs with Micro-Enterprise Activities

(from Sachin Kumar, Research Associate)

The Bharat Integrated Social Welfare Agency based in Sambalpur district has set up Laxmipriya, a Section 25 company. It acts as a resource centre, facilitates forward and backward linkages and promotes the export of products made by SHGs. The company opened an outlet in the town of Sambalpur which sells more than 100 items made by 300 SHGs. It has also provided self-employment to more than 4,500 entrepreneurs and jobs to more than 500 people.

Multiple States

Technical Guidance Programme for Small Entrepreneurs

(from Alok Pattanayak, Centre for Development of Small and Micro-Enterprises, Xavier Institute of Management, Bhubaneswar)

The Centre for Development of Small and Micro-Enterprises introduced a national level Skill cum Technical Upgradation Programme that provides training to small and potential entrepreneurs for 10 days in three phases: programme and post implementation, impact assessment and submission of final reports, and relevant reading materials. It also provides need-based training as per the clients' requirement.

Related Resources

Recommended Organisations

(from Alok Pattanayak, Centre for Development of Small and Micro Enterprises, Xavier Institute of Management, Bhubaneswar)

Gram Utthan, Kendrapara

Post Office-Pimpuri, Via-Rajkanika, Kendrapara district, Orissa-754220, gramutthanngo@hotmail.com, info@gramutthan.org; Tel: 91-6729-276225; Fax: 91-6729-276225; <http://www.gramutthan.org>

NGO helping its microfinance clients to increase their credit absorption capacity and enhance their income levels through micro-enterprise development services.

Centre for Development of Small and Micro Enterprises, Bhubaneswar

Xavier Institute of Management (XIM), Xavier Square, Bhubaneswar-751013, Tel: 91-674-3983846; Fax: 91-674-2300995; <http://www.ximb.ac.in/cdsme>

Centre developed by XIM, Bhubaneswar provides consultancy and training support to small and medium enterprises including SHG led micro-enterprises promoted by MFIs.

Skill cum Technical Upgradation Programme, Bhubaneswar

Xavier Institute of Management, Xavier Square, Bhubaneswar-751013, Tel: 91-674-3983846; Fax: 91-674-2300995; <http://www.ximb.ac.in/cdsme/stup.php>

Programme designed under Centre for Development of Small and Micro-Enterprises aims to provide basic managerial skills for small and potential entrepreneurs.

Association for Sustainable Community Development, Kancheepuram

(from K. Loganathan)

15, West Pillaiyar Koil Street, Karunguzhi Post, Madurantakam Taluk, Kancheepuram District-603303, Tamil Nadu; Tel: 91-044-275-67115; asscod@yahoo.co.in; <http://www.asscod.org/serv01.htm>

NGO promoting small scale micro-enterprise activities (grocery, milched animals, fodder cultivation, etc.) through SHGs besides bank linkage services for microfinance services.

(from Vikash Kumar, Grameen Koota, Bangalore)

Entrepreneurship Development Institute of India, Ahmedabad

Via Ahmedabad Airport and Indira Bridge, P.O. Bhat-382428, District Gandhinagar, Gujarat; Tel: 91-79-23969151/53/63; Fax: 91-79-23969164; ediindiaad1@sancharnet.in; http://www.ediindia.org/Entre_edu.asp

Education and research institution offering business entrepreneurship and management courses to support entrepreneurship development in young people.

Grameen Koota, Bangalore

JP Nagar, 9th Phase, Anjanapura Post: Avalahali, Off Knakapura Road, Near Khoday's Glass Factory, Bangalore-560062, Tel: 91-80-28436237; Fax: 91-80-28436577; info@grameenkoota.org; <http://www.grameenkoota.org/html/credit.asp>

MFI conducting periodic socio-economic development workshops for its clients on marketing of products and enterprise development.

Haryana Community Forestry Project

(from Sarika Saluja, Council for Advancement of People's Action and Rural Technology (CAPART), Saharanpur)

Haryana Forest Department, Van Bhawan, C-18 Sec-6, Panchkula-134109, Haryana; Tel: 91-172-2584115; Fax: 91-172-2560251; http://hcfp.gov.in/income_generating_activities.htm

Initiative promotes micro-enterprises and self-employment opportunities among SHG members by facilitating a number of skills based activities.

(from Balakrishnan, Catalyst Management Services Pvt. Ltd., Bangalore)

Institute of Small Enterprises and Development, Cochin

ISED House, ISED Road, Cochin-682028, Kerala; Tel: 91-484-2808171/2809884/2808727; info@isedonline.org or ised@md2.vsnl.net.in; http://www.isedonline.org/html/ised_abt_01.html

Set up a Centre for Enterprise Development providing BDS, research and human resource development services to entrepreneurs.

Catalyst Management Services Pvt. Ltd., Bangalore

111, 1st main, Central Excise Layout, Boopasandra, Bangalore-560094, Tel: 91-80-23419619; cats@vsnl.com; <http://www.catalysts.org/assignments.html>

Private company providing consulting, research and capacity building services including in the field of microfinance and micro-enterprise development.

BASIX, Hyderabad

(from A. Madhan Kumar, DHAN Foundation, Madurai)

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Tel: 91-40-30512500/1; Fax: 91-40-30512502; info@basixindia.com; <http://www.basixindia.com>

Through the sub-sector approach, the livelihood promotion institution organises entrepreneurs involved in similar business activities and provides financial and business development services.

(from Sachin Kumar, Research Associate)

EDA Rural Systems Pvt. Ltd., Gurgaon

602 Pacific Square, 32nd Milestone NH8, Gurgaon-122001, Tel: 91-124-2309707/497; Fax: 91-124-2309520; contact@edarural.com; http://www.edarural.com/enterprise_promotion_bds.html

The Enterprise Promotion division of EDA provides consulting services on how to implement enterprise programmes, along with management support and advisory services.

Hand in Hand, Kancheepuram

270 Vandavasi Road, Chinna Kancheepuram, Periyar Nagar, Kancheepuram-631503, Tamil Nadu; Tel: 91-44-27267065; Fax: 91-44-27269301; info@hishseed.org; <http://www.hishseed.org/?t=3>

Under its SHG and microfinance project, provides credit facilities and technical guidance to SHGs and their federations for enterprise development.

Bharat Integrated Social Welfare Agency (BISWA), Sambalpur

Danipali, Post: Budharaja, Sambalpur-768004, Orissa; Tel: 91-663-2533597; Fax: 91-663-2533597; info@biswa.org; <http://www.biswa.org/activity/m-ent/menterprise.html>

Under its micro-enterprise development programme, the MFI provides skills development and market linkages support to SHGs/SHG federations in setting up micro-enterprises.

Sarvodaya Nano Finance Limited, Chennai

279, Avvai Shanmugam Salai, Royapettah, Chennai-600014, Tel: 91-44-28131880; nanofinance@eth.net; <http://www.sarvodayanano.org/livelihood.htm>

Microfinance institution facilitating micro-enterprises like soda factory, dairy, textile shops, ice factory etc. to enable the rural poor to sustain themselves.

Sadhna, Udaipur

Old Fatehpura, Udaipur-313004, Rajasthan; Tel: 91-294-2454655/0960/1041; Fax: 91-294-2450947; sadhna@sadhna.org; <http://www.sadhna.org/index.html>

Women's income generation programme set up by Sewa Mandir, an NGO, the programme promotes handicraft enterprises through skill based training and market linkage facilities.

India: Growth-Oriented Micro-Enterprise Development Programme, USA

ACDI/VOCA, 50 F Street NW, Suite 1100, Washington, D.C. 20001, USA; Tel: 202-638-4661; Fax: 202-626-8726; <http://www.acdivoca.org/acdivoca/portalhub.nsf/ID/indiaGMED>

Accelerated programme develops sustainable and scalable approaches for job creation through micro/small enterprises.

Recommended Documentation

From Micro-credit to Livelihood Finance

(from Vikash Kumar, Grameen Koota, Bangalore)

By Vijay Mahajan; BASIX, Hyderabad; August 2005
http://www.microfinancegateway.org/files/34431_file_06.pdf

Document supporting an approach for livelihoods enhancement of the poor through financial services, infrastructure finance, business and institutional development services.

Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions

(from Sumeeta Banerji, Resource Person)

By Dean Karlan; Martin Valdivia; November 2006
http://www.cgdev.org/files/12331_file_TeachingEntrepreneurship.pdf

Research study findings state that after entrepreneurship training, microfinance clients perform better than those who have not received business trainings.

(from Sachin Kumar, Research Associate)

Profiling of Micro-Enterprises in Tamil Nadu and Uttar Pradesh, India

By Adam Ross and Paula Savanti; Centre for Micro Finance, Working Paper Series; August 2005
<http://ifmr.ac.in/pdf/workingpapers/6/microenterprises.pdf>

Paper analyses the types of micro-enterprises carried out by clients of MFIs along with their business profits, long-term business plans and constraints in scaling-up

Micro-Enterprise Development: Not by Credit Alone

Asian Development Bank; 1997

<http://www.adb.org/Documents/Books/Microenterprise/microenterprise.pdf>

Study highlights the importance of providing non-financial services in two types of micro-enterprise development programmes i.e. livelihood and growth oriented micro-enterprises.

Recommended Contacts and Experts

Manoj Mishra, Entrepreneurship Development Institute of India

(from Vikash Kumar, Grameen Koota, Bangalore)

Via Ahmedabad Airport and Indira Bridge, P.O. Bhat-382428, Gandhinagar, Gujarat; Tel: 91-79-23969151/23969153; Fax: 91-79-23969164; manoj@ediindia.org

Faculty at Entrepreneurship Development Institute of India, can be contacted to get details on Rural Entrepreneurship Development Programme.

Mr. Keenedy

(from Balakrishnan, Catalyst Management Services Pvt. Ltd., Bangalore)

111, 1st main, Central Excise Layout, Boopasandra, Bangalore-560094, Tel: 91-80-23419619; kennedy@cms-india.org

Has over 15 years of experience working with CBOs, can be contacted for information on the role of Catalyst Management Services in micro-enterprise development.

(from Sachin Kumar, Research Associate)

S. P. Das, Xavier Institute of Management

Xavier Square, Bhubaneswar-751013, Tel: 91-674-3983846; Fax: 91-674-2300995; spdas@ximb.ac.in; <http://www.ximb.ac.in/cdsme>

Coordinator of CDSME (Centre for Development of Small and Medium Enterprises) cell, recommended to get further details about its support to SHG-led micro-enterprises.

Khired Chandra Malick, Bharat Integrated Social Welfare Agency (BISWA)

Danipali, Post: Budharaja, Sambalpur-768004, Orissa; Tel: 91-663-2533597; Fax: 91-663-2533597; kcmalick@biswa.org

Chairman and CEO of BISWA, an MFI, can be contacted to get details on the organisation's micro-enterprise development programme.

Related Past Consolidated Reply

Sub-Sector Approaches to Livelihood Promotion, from K. Balasubramanyam, CBED, Dehradun (Experiences)

Issued 9 December, 2005

Successful experiences with sub-sector approaches to livelihood promotion, particularly among small/marginal/landless farmers.



Poverty

Work and Employment Community and Microfinance Community



Consolidated Reply

Query: Micro Enterprise Development as an Extension of Microfinance Programmes – Experiences and Examples

Compiled by Ranu Bhogal, Resource Person, and Arif Hussain and Anjum Khalidi, Research Associates
Issue Date: 28 December, 2007

From Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad

Posted 18 October, 2007

Dear Forum Members,

I work with Elitser IT Solutions India Pvt. Ltd. (formerly Java Softech Pvt Ltd) based at Hyderabad, a leading software developer for microfinance services and products. I have a long experience of working on microfinance and micro-enterprise development interventions.

On poverty communities (microfinance and work & employment), we have been discussing microfinance and micro-enterprise issues in detail looking at different aspects, both technical and functional. Having discussed these topics, I would like to draw the attention of forum members to the issue of extending microfinance to micro-enterprise.

While working with MART, I had an opportunity of working on a rural initiative popularly known as 'Project Shakti' – a highly appreciated project initiated by Hindustan Lever Limited (HLL) for promoting small business options for rural women by selling some of the useful brands of HLL along with the local Fast Moving Consumer Goods (FMCG) brands. The project was implemented across 14 states in India. From my experience of the project, I can say that rural women are quite receptive and enthusiastic when a profitable venture is available. We found many such initiatives helping the rural women to establish them successfully. To quote even the success of ITC E-Choupal in this context would not be irrelevant, as it has produced several successful examples of village level entrepreneurs.

Income generation for the rural poor has to be given adequate thrust to lift them from poverty. Microfinance alone cannot address all the issues related to alleviation of poverty. However, good livelihood options coupled with appropriate microfinance products can result in workable models for poverty alleviation.

In this regard, I would request the forum members to share their experiences and examples on the following issues:

- Experiences of micro-enterprise development projects integrating with larger businesses.
- Examples of micro-enterprise programmes initiated by MFIs/NGOs that have become successful like Dairy Enterprises in Gujarat, Handicrafts, Handlooms or simple trading activities etc, that could be replicated as community based group entrepreneurial income generating projects to other areas for benefiting rural poor.
- Experiences of successful microfinance programmes dovetailing with micro-enterprise development programmes to create micro markets for sustainable livelihoods on a larger scale for a holistic approach in poverty reduction programmes.

Looking forward to a fruitful discussion on micro-enterprise as a logical extension of microfinance. Your responses would considerably help us in developing additional service offerings for micro-enterprise clusters, and microfinance clients graduating to micro-enterprises.

Responses were received, with thanks, from

1. Shashi Singh, Consortium of Women Entrepreneurs of India, New Delhi (Response 1, Response 2)
2. Aparajita Agrawal, Intellectual Capital Advisory Services Pvt. Ltd., Mumbai
3. Santanu Bhattacharjee, Bengal Rural Welfare Service, Kolkata (Response1, Response 2)
4. Nirmala S., The Livelihood School, Bangalore
5. Baladeb Sen, Microfinance Consultant, Chennai
6. Raj Jani, Rural Business Hubs, Ministry of Panchayati Raj, GoI, New Delhi
7. Sanjeev Kumar, GOAT INDIA, Lucknow
8. Nilanjana Dasgupta, State Institute of Panchayat and Rural Development, Kalyani, West Bengal
9. Anita Sharma, GTZ, New Delhi
10. Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur
11. Ramesh Savalia, Centre for Environment Education (CEE), Gujarat
12. N. Srinivasan, Consultant, Pune
13. G. K. Agrawal, Rural and Microfinance Consultant, Mumbai
14. Julie Thekkudan, PRIA, New Delhi
15. N. Jeyaseelan, Microfinance Consultant, Madurai
16. Sashi Kumar, CARE India, Trichy
17. Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad
18. Ramadas. N, Matsyafed, Trivandrum
19. S. V. Chalapathy Rao, NABARD, Chennai
20. R. Balaji, Independent Consultant, Tanjore, Tamil Nadu

Further contributions are welcome!

Summary of Responses

Micro-Enterprise Development (MED) is being increasingly seen as a logical next step of any successful microfinance initiative that has poverty mitigation as the overarching objective. MED, especially with the poor and marginalised people, continues to be an extremely challenging task. In response to the query on MED as an extension of microfinance, the members shared a range of experiences and models that have been tried out in different parts of the country. Discussants also elaborated on the reasons for this connection between microfinance and MED

and also pointed out the precautions that need to be taken while following this approach.

MED is seen as the natural next step for many microfinance practitioners as they are already comfortable with components of enterprise building such as market and opportunity identification, project and product preparation, selection of technology and credit requirement assessment for the enterprise. Yet despite this apparent organic link, participants pointed out to the relative lack of success in microfinance-led MED. Discussants emphasised the need for analysing the efforts made by MFIs and learning from the challenges they faced in attempting to build successful micro-enterprises of the poor.

Members agreed that microfinance is an important supportive activity for MED but successful MED programmes need more than just microfinance inputs. A major gap identified by members is in the area of building capacities. There is a serious dearth of trained human resource that can anchor MED work. In addition, the members also pointed out to the dearth of training material on how to manage the transition from a pure microfinance operation to MED interventions. MED involves a range of complex activities and usually the facilitating agencies do not have the required expertise in-house. Members also stated that availability of timely credit, in required quantity, at affordable rates of interest and with ease of access is the other critical factor in grounding a successful micro enterprise. Furthermore, many members reiterated the necessity of providing 'handholding support' to 'micro-entrepreneurs' so as to ensure that they do not give up in the face of stiff competition and difficulties. In other words, members cautioned that by providing only credit without the necessary infrastructure in terms of education, marketing linkages and social capital, the credit can actually turn into a financial burden. A member also stated that it is important to remember that enterprise is not for everybody and some people may simply want to be employed gainfully and may need finance for other purposes.

Participants also discussed the development of community-based enterprises, e.g. enterprises undertaken by federations of women. These enterprises not only positively enhance the livelihoods of poor women but also have a greater ability to sustain over a longer period of time as they build on the strong community solidarity and

support. However, members also cautioned that group-based enterprises are likely to face serious operational, managerial and financial difficulties if they are not carried out in an appropriate organisational structure like a co-operative which is member-owned and controlled in the real sense. Participants also shared experiences in Durgapur where credit provision has led to success in poultry enterprises. Other examples from West Bengal, Tamil Nadu and Kerala highlighted the success in promoting enterprises relating to fisheries, Khadi and provision of medicines.

Members also debated the issue of engaging with Multi-National Corporation (MNC) promoted initiatives for penetrating the rural markets such as Project Shakti. While a few members felt that working with the MNCs helps people gain critical marketing and communication skills that help them to become successful dealers and earn a regular and reasonable income, other members felt that care should be taken to see that the MNCs do not get to have a stranglehold on the lives of the masses through control of markets and supplies. Members suggested that a regulatory mechanism be put in place to take care of this aspect.

Discussions revealed that currently there is little experience in the sector regarding linkages of small enterprises to larger business chains, though some members cautioned that such linkages can make small entrepreneurs vulnerable.

Comparative Experiences

West Bengal

Credit for Micro Enterprise, Durgapur

(from Santanu Bhattacharjee, Bengal Rural Welfare Service, Kolkata)

Four years ago, taking a cue from a Punjab based entrepreneur, poultry activity was started in rural areas of Durgapur. Women were organised into groups and thrift and credit activities were initiated. The Government's animal husbandry department helped in sourcing chicks at reasonable prices. Nearby Kolkata provided a ready market and this activity has now been extended to pisciculture and goatery also.

(from Nilanjana Dasgupta, State Institute of Panchayat and Rural Development, Kalyani, West Bengal)

From Dependence to Independence, Howrah

During 1996-97, in the Bagnan Gram Panchayat of Howrah district, 23 of the then Development of Women and Children in Rural Areas (DWCRA) groups came under one umbrella to supply raw materials to Integrated Child Development Services (ICDS) centres. With contribution of Rs. 5000 per group, they started supplying raw materials, but the orders stopped coming. Then the women started a new business of selling their products and other finished products in the village market.

Strength to Strength, 24, South Pargana

Five rural women started Sundarban Khadi and Village Industries in 1975 with only Rs. 500 as their capital. Subsequently in 1978, they received a Khadi loan of Rs. 3000. Now they have their own factory at Canning in 24 Pargana (South) and are producing silks. They are now also using vegetable dye in a low cost method developed by them. They export a major share of their production through Fair Trade Organisation.

Tamil Nadu

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Medicines for Growth, Madurai

Gandhigram Trust's Lakshmi Seva Sangh (LSS) and Indian Bank has promoted Gandhigram Sales Representatives (GSRs) which used to provide Sidda medicine in the villages. Indian Bank financed these representatives and also encouraged local SHGs to become GSRs. With improved supply chain from the LSS side and commission to the tune of 10 percent to 30 percent, most of these GSRs are now earning approximately Rs. 2000 to Rs. 3000 per month.

Project Shakti, Madurai

Hindustan Unilever Limited introduced Project Shakti in Usilampatti in Madurai by appointing Shakti dealers and delivering stocks at their doorsteps. Indian Bank financed these Shakti dealers. These dealers not only learnt marketing and communication skills but also marketed products manufactured by local SHGs. Currently most of these Shakti dealers are earning more than Rs. 2000 per month.

Kerala

Microenterprise Supported by Microfinance, Trivandrum

(from Ramadas. N, Matsyafed, Trivandrum)

Fishery as a livelihood activity requires high initial capital investment and also high working capital. Earlier, in most parts of Kerala, fishermen used to take high interest loans to meet these costs. With the organisation of these fishermen into SHGs associated with Primary Fishermen Cooperatives, now they avail low interest loans to partially meet their capital and operating expenses.

Related Resources

Recommended Documentation

Microfinance Insights: Financial Service Delivery

(from Aparajita Agrawal, Intellectual Capital Advisory Services Pvt. Ltd., Mumbai)

Volume 4; Intellectap Capital Advisory Services Pvt. Ltd.; Mumbai; September 2007

Available at <http://www.microfinanceinsights.com/Download/Highlights-Issue%204.pdf>

Explores issues relating to the Bottom of the Pyramid (BoP) markets; includes interviews from sector leaders on developing viable micro-enterprises and markets for the poor.

The Forgotten Sector

(from Sanjeev Kumar, GOAT INDIA, Lucknow)

Book available at ISBN 9788120411661; by Mr. Vijay Mahajan and Thomas Fisher; BASIX; Practical Action; Location; 1997

In-depth assessment of the successes/failures of development policies; provides strategy to meet national goals of full employment, economic growth and poverty alleviation.

Success Story from Usilampatti

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Client Profile; Project Shakti; Hindustan Unilever Ltd.; Usilampatti, Tamil Nadu;

Available at <http://www.hllshakti.com/sbcms/temp10.asp?pid=46802653&syid=63902166>

Case study from an entrepreneur's experience in Usilampatti; through Project Shakti she has become financially self-reliant.

The Role of Microfinance in Rural Micro Enterprise Development

(from Anjum Khalidi, Research Associate)

Report; by Prof. Dr. Hans Dieter Seibel; University of Cologne; Syngenta Foundation for Sustainable

Agriculture; Switzerland; February 2007

Available at http://www.syngentafoundation.org/pdf/Seibel_Report_e.pdf

Covers changing issues in agriculture, rural development and demand for financial services; explores how to foster sustainable access to microfinance in rural areas.

Recommended Organisations and Programmes

Shashwat - Consortium of Women Entrepreneurs of India (CWEI), New Delhi

(from Shashi Singh)

1204 Rohit House, 3 Tolstoy Marg, New Delhi-110001
Tel: 011-20547255; Fax: 011-23356030 shashwat_mail@yahoo.co.in, cwei_mail@reddiffmail.com;
<http://www.cwei.org/marketing.php>

Shashwat promotes rural, cottage and SSI products to enhance productivity, better quality and improve socio-economic standards of rural women with a cluster approach.

Bengal Rural Welfare Service (BRWS), Kolkata

(from Santanu Bhattacharjee)

Survey Park, Santoshpur, Kolkata-700075, Tel: 033-24239352; brws@cal.vsnl.net.in; <http://www.brws.org/activities.html>

NGO offering savings-credit to SHGs; also promotes home based agro-income generation such as poultry, fishery, duckery, etc.

Covenant Centre for Development (CCD), Madurai

(from S. Nirmala, The Livelihood School, Bangalore)

18-C/1, Kennett Cross Road, Ellis Nagar, Madurai-625010, Tel: 91-452-2607762; Fax: Fax No. mdu_ccd@sancharnet.in; http://www.grameenfoundation.org/where_we_work/south_asia/india/ccd/

Provides livelihood finance as well as marketing support to large-scale livelihood options; promotes community-based enterprises through SHG federations.

(from Sanjeev Kumar, GOAT INDIA, Lucknow)

PRADAN (Professional Assistance for Development Action), New Delhi

3, Community Shopping Centre, Niti Bagh, New Delhi-110049, Tel: 011-26518619, 26514682; headoffice@pradan.net; www.pradan.net.in

Extensive experience in promotion of livelihoods, SHG federations and micro-enterprises such as

poultry rearing, Tasar yarn production, vermi-composting and more.

Development Education International Society (DEIS), Pune

56/20A, Prabhat House, Damle Path, Law College Road, Pune-411004, Tel: 20-25439101; deispune@eth.net, deispune@gmail.com; <http://deispune.org/video.html>

Produces audio video training tools on enterprise promotion in local languages.

Gram Nidhi Project, Ahmedabad

(from Ramesh Savalia, Centre for Environment Education (CEE), Gujarat)
ThaltejTekra, Ahmedabad-380054, Tel:079-26858002; Fax: 079-26858010 cee@ceeindia.org; <http://www.ceeindia.org/cee/rural.html#GRAMNIDHI>

Implemented by CEE, works towards developing financial and human capital to conserve natural resources for sustainable livelihoods.

Project Shakti, Andhra Pradesh

(from Julie Thekkudan, PRIA, New Delhi and Raman V.

Machiraju, Elitser IT Solutions India Pvt. Ltd. and N. Jeyaseelan, Microfinance Consultant, Madurai)

Hindustan Unilever House, 165/166, Backbay Reclamation, Mumbai-400020, Tel: 022-39830000; Fax: 022-22871970; <http://www.hllshakti.com/sbcms/temp15.asp>

Initiative of Hindustan Unilever Ltd. to create income-generating capabilities for underprivileged rural women by providing small-scale enterprise opportunities.

Related Consolidated Replies

Micro-Enterprise Development for Mature Microfinance Clients, from N. Jeyaseelan, Microfinance Consultant, Madurai (Experiences). Microfinance Community Issued 22/02/2007.

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-29010701.pdf>

Shares challenges and strategies to graduate microfinance clients from micro-credit to micro-entrepreneurial activities through experiences including using sub-sector approach.



Poverty

Microfinance Community and Work and Employment Community



Consolidated Reply

Query: Microfinance Needs and Institutional Livelihood Models for Fisherfolk – Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate
Issue Date: 6 April, 2007

From Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai
Posted 21 March, 2007

I am involved in a Financial Services Study in the Fisheries Sector (credit access and credit worthiness of fisher folk) for FAO/UNTRS (Food and Agriculture Organisation/United Nations Team for Tsunami Recovery Support) in the Tsunami areas in Tamil Nadu and Kerala. The study has had primary data collection in about 10 sites in Tamil Nadu and Kerala from about 150 individual interviews and 75 Focus Group Discussions (FGDs). We have also talked to institutions and collected data on their experiences as well as models for delivering financial services to low income fisher folk.

In this context, I would be grateful for experiences and resources from members on the following:

- What are the financial needs, for productive and other purposes (credit, savings, micro- leasing, insurance, remittances, etc.), of the low income fisher folk along with inter-linkages?
- What would be the critical financial and other risks in the livelihoods of low income fisher folk and mitigation mechanisms (financial crisis coping strategies)?
- Are members aware of institutional models for delivering financial services for low income fisher folk? It would be useful if members could share processes, operational methodology, strengths and weaknesses of these models.
- What are the existing regulatory bottlenecks in facilitating enhanced financial access and enabling mechanisms including pragmatic policy changes?

Summary of Responses

The query sought advice and experiences from members on the financial needs of low income fisher folk, and the best institutional models for delivering financial services to this group. It also requested information on livelihood risks and mitigation mechanisms as well as the policy changes required to overcome bottlenecks in service delivery. Members responded by sharing focused advice on the financial support fisher folk require to help them meet productive and consumption needs, the nature of risks involved in their livelihoods and institutional

Responses were received, with thanks, from

1. G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Hyderabad
2. Karthikeyan, Development Consultant, Chennai
3. Sachin Kumar, UNDP, New Delhi
4. T. S. Krishnan, Development Oriented Operations, Research and Surveys, Noida

Further contributions are welcome!

models and regulatory issues linked with delivering financial services.

Highlighting the importance of microfinance services for low income fisher folk, respondents pointed out

fishing communities require microfinance services such as credit, savings, micro-easing, insurance and remittances, for both consumption and production purposes. Savings as well as risk management services, in the form of insurance for life and assets, are also important. Additionally, members noted remittance has become increasingly significant, as seasonal migration of fisher folk is now a widespread phenomenon.

Respondents advised categorising fisher folk into groups by the type of fishing they do (i.e. mechanised, artisanal, labour, migrant, working on large shipping boats) before trying to define their microfinance needs. The microfinance needs, appropriate delivery channels for finance, credit absorption, and size and quantum of financial services will also vary according to the group. Hence, participants opined that different strategies are required to serve the financial needs of different categories of fisher folk. They recommended developing suitable client-led microfinance products and services, based on well-designed market research focusing on the socio-economic conditions of fisher folk.

Members specified the nature of production needs of fisher folk that microfinance can help meet, such as:

- purchasing, repairing, renewing and maintaining fishing equipment;
- buying inputs (e.g. boats, nets, ice);
- engaging in post-harvest activities (e.g. fish vending and fish processing);
- employment diversification; and
- upgrading their crafts with navigation equipment and storage facilities.

Members shared an example from a Kerala based federation that provides micro-credit to fisher folk clients to help meet some of the production needs outlined above.

Members also underlined the role of microfinance in meeting the consumption needs of fisher folk, which are as important as loans for production purposes. Fishing communities require microfinance to manage expenses for food (to adjust cash flows), migration, household needs (e.g. improving housing investment, marriages and festival celebrations) and health and nutrition concerns.

Beyond credit for production and consumption, respondents remarked that fisher folk also require technical and institutional support to meet needs, which have a direct impact on the quality and

timeliness of fishery-related activities, including:

- Technology - energy efficient devices, better inputs, improved access to markets, storage locations, and processing.
- Information on weather, fish movement, market prices, etc.
- Markets - improved value addition.
- Basic infrastructure - drying platforms, market yards, packaging and storage.

Members highlighted three key risk factors that need to be covered through insurance life, assets (e.g. boats, nets) and weather, as well as providing protection against the risk of loss of wages during lean catch periods. They cited a national federation of fisher folk cooperatives providing an insurance programme as an example of how insurance can protect fishing communities. To mitigate the risks associated with fishing, respondents recommended implementing risk coping strategies, such as:

- Dealing with risk management services in a comprehensive manner in order to look at mitigation, reduction and diversification of life and non-life risks, and providing purely insurance services only reduce risk, it does not address mitigation and diversification of risks.
- Searching for alternative livelihoods and support in graduation process through provision of improved fishing technology to diminish the impact of reduced income due to poor/no catches has on poor families.
- Mitigating the risk of price realisation on fish caught through improving access to market information by market intelligence systems, entering into forward contracts (based on future sales value of fish catch), augmenting storage facilities and promoting people controlled market intermediary – collectives.

Responding to the question, on institutional models for delivering financial services to low income fisher folk, members clearly pointed out two models being used – the South Indian Federation of Fishermen Societies (SIFFS) model of producer cooperatives and SHGs of fisherwomen (i.e. the SHG project in Orissa). Before deciding on a specific institutional set-up, respondents advised studying the culture of traditional lending in fisher folk communities to gain an in-depth understanding of the situation. It was also suggested that delivery models be designed combining business development services with credit services to ensure better recovery of loans.

Finally, with regard to regulatory mechanisms and policies required to facilitate enhanced financial services to low income fisher folk, members advised enacting legislation and implementing policies at the state-level to promote self-reliant cooperatives, such as fisher folk collectives. This would help nurture collectives, combining business services and credit for fisher folk at competitive costs. The collective form would also provide scope of mobilising saving deposits from members.

Additional Material

Definition of Artisanal Fisherfolk

(from Sumeeta Banerji, Resource Person, based on Tietze, U.; Groenewold, G.; Marcoux, A.)

In technological terms, artisanal marine and small-scale fisheries are characterised in most cases by fishing craft with non-mechanised propulsion systems (sails and oars) or low-horsepower outboard or inboard engines; use of passive fishing methods; manual operation of fishing gear (setting, shooting and hauling); and the absence of electronic fish-finding and navigational devices.

In sociological terms, a characterisation of artisanal fisherfolk includes: participation of kin group members, as owners of craft and gear, in occupational work groups; professional socialisation and training within kin groups rather than in specialised formal institutions; integration of workplace and habitation; and profession-specific settlements.

In economic terms, artisanal marine fisheries are characterised by: low and irregular incomes; special arrangements for compensation of labour and capital inputs, with a prevalence of sharing systems rather than fixed wages; labour-intensive rather than capital-intensive methods of production; and exploitation of open-access resources, in competition with industrial fisheries. Moreover, fishing communities tend to have low standards of living in terms of access to safe drinking water, housing conditions and health and family planning services. Frequently, nutritional, health and hygienic standards are poor. They often lack adequate infrastructure and community services such as all-weather roads and public transport, as well as access to credit and other support services, including storage/preservation, processing and marketing facilities.

Comparative Experiences

Kerala

Fishermen Societies Serving Financial and Technical Needs of Fisherfolk

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Hyderabad)

South Indian Federation of Fishermen Societies, a producer collective model, supports livelihoods of fisher folk through serving their credit, insurance, savings and fish marketing needs. Loan repayment is based on percentage of fish caught and not on a fixed installment basis. This system of credit allows fishermen to cover the costs related to the purchase, repair and maintenance of fishing equipment, post-harvesting activities and other consumption needs.

Orissa

Project Addressing Livelihood Financing and Market Linkage Needs of the Fisherfolk

(from Sachin Kumar, UNDP, New Delhi)

In March 2006, the Centre for Micro Finance (CMF), Chennai and UNDP India undertook a joint project called 'Enterprise Promotion and Sustainable Livelihoods in Fisheries Sector in Orissa'. Under this initiative, CMF is working with the KAS Foundation, an MFI, to develop financial products, training and market linkage services for its fisherfolk clients. With this, the MFI is planning to increase its loan disbursement from Rs. 1.5 million to Rs. 15 million in 2007.

Multiple States

National Federation Implementing Centrally Sponsored Group Insurance Schemes

(from T. S. Krishnan, Development Oriented Operations, Research & Surveys, Noida)

The National Federation of Fishermen's Cooperatives Limited provides development, welfare and commercial services to individuals in the fisheries sector. Through its welfare programme, it implements a centrally sponsored 'group accident insurance scheme for active fishermen' across India. The scheme provides 24-hours accident coverage to insured fisher folk—half the premium is paid by the state and the other half by the Central Government. So far, more than 8,000 claims have been settled.

Related Resources

Recommended Organisations

South Indian Federation of Fishermen Societies, Trivandrum

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Hyderabad)

Karamana, Trivandrum-695002, Kerala; Tel: 91-471-2343711/178; Fax: 91-471-2342053; admin@siffs.org; <http://www.siffs.org/Index.aspx?Page=CreditFinancialServices.aspx&tblName=DivSociety>

Provides microfinance (micro-credit, savings and insurance) services to fisher folk, along with delivering livelihoods services through federation of fisher folk.

Integrated Coastal Management, Kakinada

(from Karthikeyan, Development Consultant, Chennai)

64-16-3A, Pratap Nagar, Kakinada, Andhra Pradesh-533004, Tel: 91-884-2364851; [click here to view site](#)
Consultancy firm offering a wide range of services (e.g. policy development, training, monitoring and evaluation) in the areas of coastal poverty and livelihoods.

National Federation of Fishermen's Cooperatives Limited, New Delhi

(from T.S. Krishnan, Development Oriented Operations, Research and Surveys, Noida)

7, Institutional Area, Sarita Vihar, New Delhi-110076, fishcopfed@vsnl.co; <http://www.fishcopfed.com/activities.htm>

Apex institution undertaking the purchase, sale and supply of fish and fish products along with providing group accident insurance services to active fishermen.

Centre for Micro Finance, Chennai

(from Sachin Kumar, UNDP, New Delhi)

24, Kothari Road, Nungambakkam, Chennai-600034, Tel: 91-44-28273801; Fax: 91-44-28279208; <http://www.ifmr.ac.in/cmfi>;
<http://ifmr.ac.in/cmfi/mfi-strategy-unit/projects/1/>
Organisation developing livelihoods financing products and market linkage services for fisher folk clients of some MFIs in Orissa.

Post-Tsunami Sustainable Livelihoods Programme for the Coastal Communities of Tamil Nadu, Italy

(from Sachin Kumar, Research Associate)

Via del Serafico, 10700142 Rome, Italy; Tel: 39-0654592294; Fax: 39-0654593294; m.prayer@ifad.org; <http://www.ifad.org/operations/projects/regions/PI/des/IN.htm>

Aims to enable 2004 Tsunami victims in the coastal areas of Tamil Nadu to return to a stable and productive way of life through a microfinance and community-driven livelihoods approach.

Recommended Documentation

(from Karthikeyan, Development Consultant, Chennai)

Livelihoods in Fisheries: What Can We Do?

By Vankatesh Salagrama; UN Team for Recovery Support, Revised Draft; June 20, 2006

Discussion paper exploring possible options for sustainable livelihood support in fisheries along with provision of support for credit, social security and livelihoods diversification.

Post-Tsunami Rehabilitation of Fishing Communities and Fisheries-based Livelihoods in Tamil Nadu, Kerala and Andhra Pradesh, India

By Vankatesh Salagrama; International Collective in Support of Fisherworkers Post-tsunami Rehab Workshop Proceedings: India Country Report; January 2006

Report covering impact of tsunami on coastal fisherfolk and rehabilitation issues of fisheries-based livelihoods including credit and institutional needs of fisherfolk.

Microfinance in Fishery and Aquaculture: Guidelines and Case Studies

(from Sachin Kumar, Research Associate,)

By Uwe Tietze and Lolita V. Villareal; FAO Fisheries Technical Paper 440, Rome; 2003

<http://www.fao.org/docrep/006/y5043e/y5043e00.htm>

Guidelines for MFIs providing microfinance services in fisheries and aquaculture sectors, elaborates on lending models, methodologies and policies related to fisheries.

Demographic Change in Coastal Fishing Communities and its Implications for the Coastal Environment

(from Sumeeta Banerji, Resource Person)

Tietze, U.; Groenewold, G.; Marcoux, A; FAO Fisheries Technical Paper. No. 403. Rome; 2000

<http://www.fao.org/DOCREP/005/X8294E/X8294E01.htm>

Publication presents studies carried out under UNFPA-funded, FAO-executed research and training project on population and development dynamics of rural fishing communities.

Recommended Contacts and Experts

Mr. Vivekanandan

(from G. V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Hyderabad)

Karamana, Trivandrum-695002, Tel: 91-471-2343711/178; Fax: 91-471-2342053; vivek@siffs.org

Director of South Indian Federation of Fishermen Societies, has been working with fisher folk for the last 20 years.

Mr. Venkatesh Salagrama

(from Karthikeyan, Development Consultant, Chennai)

Integrated Coastal Management, 64-16-3A, Pratap Nagar, Kakinada, Andhra Pradesh, India-533004, Tel: 91-884-2364851; vsalagrama@gmail.com, v.salagrama@yahoo.co.in

Director of Integrated Coastal Management, is an expert in fishery based livelihoods issues.

Recommended Portal and Information Base

OneFish Community Directory

(from Sachin Kumar, Research Associate)

<http://www.onefish.org/global/index.jsp>

Fishery projects directory and participatory resource gateway for the fisheries and aquatic research and development sector.



Consolidated Reply

Query: Microfinance for Micro Dairy Enterprises – Experiences and Referrals

Compiled by Navin Anand and Gopi Ghosh, Resource Persons and Monika Khanna and T. N. Anuradha, Research Associates

Issue Date: 22 October, 2008

From Kuldeep Sharma, Entrepreneurship and Technology Development Centre, Noida

Posted 15 September, 2008

I work for Entrepreneurship and Technology Development Centre (an initiative of Suruchi Consultants) based at Noida. We have been active in the area of setting up mini and small-scale milk processing units for small and marginal farmers engaged in small dairy enterprises. Currently, we are imparting entrepreneurship development training to the budding entrepreneurs in the field of milk processing and milk products manufacturing.

We offer projects on turnkey basis. The capital required for undertaking small dairy projects by these dairy farmers vary from Rs. 25,000 to Rs. 10 lakh depending on the requirements and budget.

Our organisation has a small set up of mini-dairy equipment at Noida, where we conduct the training programmes and some research on developing low cost technologies for high value added products.

Looking into the value chain of the dairy sector, these dairy farmers require different types of microfinance services at various levels of the project, such as purchase of milch animals, construction of sheds, livestock insurance, working capital for animal feed, veterinary services, instruments and equipment for milk processing and milk testing units etc.

We are trying to help marginal and small farmers in getting microfinance services. We can assure the financial institutions on the feasibility and skill levels of the entrepreneurs. It is in this context that we would like to know experiences and references from our esteemed members on:

- What are the requirements of microfinance services* for small dairy entrepreneurs at different levels of the value chain?
- What organisational arrangements, such as SHGs, cooperatives, producer companies, Farmers Interest Groups (FIGs) etc. are most suitable for providing microfinance services?
- Which are the different financial, promotional institutions and government departments, providing microfinance services to small dairy farmers and their schemes?

We would also like you to please provide us with names, addresses, phone numbers and emails of the organisations providing microfinance services to dairy farmers.

*Microfinance services include savings, credit, insurance (life, livestock and other insurances) and transfer of money (i.e. remittance services, payments etc.)

Members' inputs would be extremely helpful for making a quick plan for the livelihood of these farmers and especially in organising and linking with different organisations for their urgent microfinance needs.

Responses were received, with thanks, from

1. Indu Chandra Ram, Local Governance Project – (USAID/RTI), Iraq
2. G.K. Agrawal, Rural and Microfinance Consultant, Mumbai
3. Virendra Kumar, Formerly Indian Farmers Fertiliser Cooperative Limited (IFFDC), Ghaziabad (Response 1; Response 2 *)
4. Sanjeev Kumar, Development Professional, Lucknow
5. Girija Srinivasan, Consultant, Pune
6. George Thomas, Evangelical Social Action Forum, Kerala
7. Anupama, Centre for Insurance and Risk Management – IFMR, Chennai
8. K.V Peter, World Noni Research Foundations, Chennai
9. Manab Chakraborty, Mimo Finance, Dehradun
10. P. Uday Shankar, Microfinance Consultant and Trainer, Coimbatore
11. Pitam Chandra, Indian Council for Agriculture Research, New Delhi
12. Praveen Srivastava, Tranzlease, Pune
13. Vineet Rai, Intellectap, Mumbai
14. Arabinda Mitra, Ghoragacha Swanirvar Samiti, West Bengal
15. Annapoorna, Consultant, Hyderabad
16. Santanu Sengupta, Change Innovators, Kolkata
17. N. Srinivasan, Consultant, Pune
18. Praveer Ghodgaonkar, Natural Resource Management and Development Association, Indore
19. Shivendra Sharma, Plural India, Gurgaon
20. Ranjan Roy, Karmadaksha, Bilaspur
21. M.S. Yadav, Uttarakhand Livelihood Improvement Project for Himalayas, Dehradun
22. Beena George, Evangelical Social Action Forum, Nagpur
23. Sameer Kochhar, Skoch Development Foundation, Gurgaon

24. Suresh Mathevan, Centre for Indian Knowledge Systems, Chennai *

25. Lachhman Nayak, Coastal People's Development Association (CPDA), Orissa*

*Offline Contributions

Further contributions are welcome!

Summary of Responses

Responding to the query, members focused on requirements of microfinance services for small dairy entrepreneurs at different levels of the value chain and appropriate promotional and financial institutions supporting small dairy enterprises. Respondents classified dairy value chain activities into two broad categories – agriculture-allied activities and non-farm activities.

Based on the field experiences, members opined that financing activity above the level of individual farmers ideally needs to be based on a value chain approach. They suggested organisations view the dairy value chain from a macro-perspective. Members pointed out banks have been providing finance to the dairy sector, for a long time, either directly or through dairy cooperative societies. Farmers in general utilise the majority of the financing for animal husbandry activities. Banks and NGO-MFIs/MFIs usually earmark micro credit to the SHGs and Joint Liability Groups (JLGs). Group members primarily use the loans for purchasing one or two milch cows/buffaloes, a heifer, cattle feed, containers, to construct cowsheds and pay insurance premiums.

Respondents noted the dairy project of the Gujarat Cooperative Milk Marketing Federation Ltd through the brand "AMUL" to promote dairy farmers in the state and a project in Andhra Pradesh implemented by a commercial bank in association with the National Dairy Development Board (NDDB) that provides dairy farmers microfinance services through smart cards called 'Milk Mitra Cards'. In addition, members suggested looking at other successful projects like:

- NGO led dairy projects in Tonk and Sagar
- National Dairy Research Institute (NDRI) and partner agencies' action research project using the traditional milk market in Khammam (near Bangalore)
- NGO and private company linkage model for supply of cattle feed

- MFI initiative on dairy and dairy-based livelihoods across the country
- Successful intervention of a leading NGO and NABARD in Vansda, Gujarat
- Development agency in Alwar extending loans to SHG members
- Research Foundation's Bio-village project – "Establishing Fodder Banks for Landless Poor".

Members highlighted the example of a Watershed Management project in Uttarakhand, which focuses on collective purchase, management and utilisation of assets required for dairy. To procure dairy assets, members suggested for taking group loans so that risk is shared amongst the group members. They also advised members and non-members to use the assets as per the agreed norms. Highlighting the cluster approach applied in Guwahati, respondents informed about crossbred cow-based dairy activity undertaken on a significant scale in a cluster of villages existing in the radius of 25 km. Moreover, discussants also illustrated the initiative of 'Reliance Fresh' near Hyderabad wherein an entrepreneur and retail chains collaborate to promote the dairy sector. Reliance purchase and procures the milk from the doorstep of the entrepreneur.

Respondents highlighted the work of a renowned NGO working in Nizamabad and Adilabad districts of Andhra Pradesh which had created a practical model of forming SHGs, MACS and Federation of MACS in the form of a secondary cooperative, under MACS Act. The promoting NGO provides capacity building on technical and management aspects, and federation accesses credit from financial institutions and do on-lending. It plans to form a Women Milk Producer Company, owned and managed by women. Members gave another example of an initiative of an NGO working in Puri district of Orissa wherein SHGs and a multipurpose cooperative society is formed and dairy activities are now initiated through cooperative.

Discussants suggested several organisations in a position to offer microfinance related guidance and support, specifically:

- National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) – national level development banks that provide the majority of financing
- ABN AMRO, HDFC, ICICI, Friends of Women's World Banking (FWWB), BASIX, Bellwether Pvt. Ltd and AXIS Bank

- An emerging Non-Banking Finance Company working in Uttarakhand, western Uttar Pradesh, and Haryana.

They also recommended contacting NABARD's District Development Managers (DDMs).

Additionally, members also quoted that besides exploring possibilities of lending from existing financial institution, one can form a MFI as Trust/Section 25 Company or Non-Banking Financial Company (according to the situation) which can lend to the producer group and other regular SHGs.

Discussing the problem related to lending, members mentioned that apart from under-financing, MFIs try to recover the loans within a year through weekly installments, which is often difficult for small farmers to pay. To address this problem, they suggested MFIs factor these issues into the repayment periods and installments and conduct an analysis of existing infrastructure before financing, considering that currently a disequilibrium exists at many places in terms of infrastructure facilities including the cooperative dairy sector.

Respondents expressed that the institutions like SHGs, Cooperatives, Farmer's Interest Groups (FIGs) are appropriate at the grassroots level operations. However, to take up value addition activities, it is necessary to form II and III tier institutions like federations or associations.

Recommendations suggested for promoting small dairy enterprises, include:

- Do an analysis before deciding to set up a producer company
- Adopt integrated livestock development practices
- Develop risk reduction and risk mitigation strategies
- Prepare a development plan at the block or taluk level, which may include standardisation of buffaloes or cows, defining grazing area, managing feedstock, medication and veterinary support
- Procure risk mitigation tools from specialised institutions.

Finally, respondents recommended referring to successful models and their organisational structures, value chains as well as microfinancing systems. Members also shared the names of

organisations/promotional institutions that can provide the microfinance services to small dairy entrepreneurs.

Comparative Experiences

Gujarat

Initiatives of Gujarat Cooperative Milk Marketing Federation (GCMMF), Anand

(from G.K. Agrawal, Rural and Microfinance Consultant, Mumbai)

GCMMF is India's largest food products marketing organisation. It is a state level apex body of 11 district milk cooperative unions of Gujarat, which aims to provide remunerative returns to the farmers. In 1973, GCMMF promoted a brand 'AMUL'. It is the largest food brand in India with an annual turnover of US \$1050 million (2006-07). AMUL has 13141 societies, and 2.7 million producer members with average milk collection of 10.21 million litres per day.

Andhra Pradesh

Dairy Initiatives by Women, Bheemadevarapalli

(from Sanjeev Kumar, Development Professional, Lucknow)

Women's thrift cooperatives and associations used their savings to invest in agriculture. However, in 1997, drought hit the region and the women's investments did not generate sufficient income, so they incurred losses. To help groups access a more secure income, Mulkanoor set up a dairy after receiving the technical support from NDDDB and CDF. Currently, the dairy procures about 18,500 litres of milk from societies and is supporting 5,019 members, spread over 68 villages and out of the 32 employees, 22 are women.

Profitable Business by Women Entrepreneurs, Nizamabad and Adilabad

(from Girija Srinivasan, Consultant, Pune)

In 2005, Indur Intideepam Mutually Aided Thrift & Credit Cooperatives Federation Ltd (IIMF) invested 35 lakh and commissioned one bulk milk cooler with smart card based electronic milk tester and milk procurement infrastructure. GRAM provided civil structure for the BMC, and supported staff cost for one year. Milk is collected in efficient and transparent manner, pooled at the BMC, chilled and sold. IIMF has repaid Rs. 31 lakh with interest

and has helped milk producers to earn 40 percent more.

Microfinance Project Provides Farmers Access to Financial and Technical Expertise, Chittoor District

(from Sameer Kochhar, Skoch Development Foundation, Gurgaon)

The Corporation Bank, with NDDDB is implementing a project that provides microfinance to dairy farmers. The project gives dairy farmers microfinance smart cards called 'Milk Mitra Cards'. The cards capture the quantity, quality details and financial history of the dairy farmer. So far, this joint initiative has proved successful, with the bank providing its expertise in financial solutions and NDDDB offering technical solutions to help farmers get better quality milk in larger quantities.

Retail Chain Promotes a Model that Benefits Farmers and Consumers

(from Annapoorna, Consultant, Hyderabad)

To meet the demand by people in Hyderabad for a consistent supply of milk, Reliance Fresh initiated a model whereby an entrepreneur arranges for a bulk-processing unit to be set up at his/her location and Reliance supplies the machinery at subsidised rates. The entrepreneur is required to invest around Rs. 2-3 lakh to set up the entire unit and procure milk from nearby villages, and then supplies it to Reliance. Under this model, the entrepreneur can earn an average Rs. 4000-5,000 after meeting all the costs.

Uttarakhand

Asset Building through Common Funds, Bawain Village

(from M.S. Yadav, Uttarakhand Livelihood Improvement Project for Himalayas, Dehradun)

In 1996, under the Doon Valley Watershed Management project, in village Bawain, Tehri Garhwal dairy farmers formed a group. To improve their livestock, they went for a hybrid bull. One group member took the overall responsibility of rearing and caring for the bull and all the other members collectively owned and used the bull. After four years, the group had an income of Rs. 16,000 and decided to sell the bull, earning Rs. 5,000. As a result of effectively managing their common asset, society now has Rs. 21,000.

Related Resources

Recommended Documentation

Dairy Value Chain Consultation

(from P. Uday Shankar, Microfinance Consultant and Trainer, Coimbatore)

Report; Centre for Microfinance and Indian Society of Agribusiness Professionals; Chennai; 2006

Available at <http://ifmr.ac.in/cmfw/wp-content/uploads/2007/07/minutes-on-dairy-consultation-jan-2006.pdf>

Discusses the gap in dairy value chain and suggests possible collaborations between MFIs, private companies, cooperatives and NGOs.

(from Navin Anand, Resource Person)

Linking with Dairy Cooperatives for Large Scale Community-based Service Delivery

Paper; Centre for Development and Population Activities (CEDPA)

Available at <http://www.cedpa.org/images/ENABLE%20pubs/India%20Dairy%20Cooperatives.pdf>

Provides a brief about a project that has adopted community-based distributors (CBDs) model for managing dairy cooperatives.

Lessons Learned : Studies from India

Report; Animesh Banerjee; Animal Production and Health Commission for Asia and the Pacific, Food and Agriculture Organisation of the United Nations (FAO); New Delhi

Available at http://www.aphca.org/reference/dairy/LLS_India_revised_20Dec07.pdf

Provides a macro view of the Indian dairy sector, discusses the value chain of AMUL's experiment and explores the challenges faced by small dairy farmers.

(from Monika Khanna, Research Associate)

Managing Complex Networks in Emerging Markets

Paper; Pankaj Chandra and Devanath Tirupati; Indian Institute of Management, Ahmedabad; May 2002

Available at <http://www.iimahd.ernet.in/publications/data/2002-05-06PankajChandra.pdf>

Draws the experiences of AMUL, which has emerged as a successful business model and achieved a huge market share in dairy products.

Dairy Enterprise Initiative

Report; Land O' Lakes; United States of America; 2005

Available at http://pdf.dec.org/pdf_docs/PDACF790.pdf

Shares the lessons learned from the Dairy Enterprise Initiative for Honduras and Central America.

Recommended Contacts and Experts

Mr. A. N. Gupta, Indian Farmers' Fertiliser Cooperative Limited (IFFCO) Foundation, New Delhi

(from Virendra Kumar, (formerly with IFFCO), Ghaziabad)

34, Nehru Place, New Delhi-110034, Tel: 91-11-2643-6450, 2643-6387; Fax: 91-11-2629-2519; angnoida@yahoo.com; http://iffcofoundationconferences.org/about_us.html#2

Working with IFFCO that aims at strengthening village level primary cooperatives and also involved in extending Microfinance services.

Recommended Organisations and Programmes

Gujarat Cooperative Milk Marketing Federation Ltd, Anand

(from G.K. Agrawal, Rural and Microfinance Consultant, Mumbai)

Amul Dairy Road, P. B. No.10, Anand-388 001, Gujarat; Tel: 91 2692 258506, 258507, 258508, 258509; Fax: 91 2692 240208 gcmmf@amul.com; <http://www.amul.com/organisation.html>

State level apex body of milk cooperatives; aims to provide remunerative returns to the farmers by marketing food products and managing AMUL brand.

(from Sanjeev Kumar, Development Professional, Lucknow)

IBTADA, Alwar

Plot No. 4, Scheme 8, Gandhinagar, District Alwar, Rajasthan-301001, Tel: 91-144270-2452/3121; Fax: 91-144-234 5509; <http://www.ibtada.org/portfolio.asp>

Promotes women's organisations to develop savings and credit, and links these groups with banks to secure loans to buy milch animals.

Self-Reliant Initiatives through Joint Action (SRIJAN), Tonk and Sagar

4, Community Shopping Centre, First Floor, Anupam Apartments, Mehrauli-Badarpur Road, Saidullajab, New Delhi-110068, Tel: 011-51664521/25936411;

Fax: 011-51664521 delhi@srijanindia.org; http://www.srijanindia.org/project_dunni.htm

National level organisation, promoting dairy as a livelihoods option for women in Madhya Pradesh and Rajasthan and has established a value chain for marketing milk.

Mulkanoor Cooperative Rural Bank and Marketing Society Ltd, Andhra Pradesh

Mandal: Bheemadevarapally, District: Karimnagar, Andhra Pradesh; Tel: 91-8727-248222/41; Fax: 91-8727-248221; info@mcrbms.org; http://www.mcrbms.org/services_and_activities.asp

Initiated a dairy unit with the women thrift cooperatives; also supplies cattle feed and medical assistance through veterinary assistants.

National Dairy Research Institute ((NDRI), Karnal
Deemed University, Karnal-132 001, Punjab; Tel: 91-184-2252800, 2259002; Fax: 91-184-2250042 feedback@ndri.res.in; http://karnal.nic.in/res_ndri.asp

Research institution with expertise in different areas of dairy production, processing, management and human resource development.

Bhartiya Samruddhi Finance Limited, BASIX, Hyderabad

3rd floor, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 91-40-30512500/01; Fax: 91-40-30512502; info@basixindia.com; http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=40&Itemid=54

Flagship company of the BASIX group, provides agricultural business development services to cotton producers and dairy cooperatives.

International Livestock Research Institute, India
Patancheru-502 324, Andhra Pradesh, India; Tel: 91-11-2584 9552; Fax: 91-11-2584 1294 <http://www.ilri.org/research/Content.asp?CCID=44&SID=114>

Non-governmental organisation with headquarters in Nairobi, Kenya, conducts collaborative research to create, integrate and innovate the livestock based pathways.

(from P. Uday Shakar, Microfinance Consultant and Trainer, Coimbatore)

Spandana Sphoorty Financial Limited, Hyderabad
Plot No. 79, Vinayak Nagar, Care Crystal, Near Spencer Super Market, Gachibowli, Hyderabad-500032,

Tel: 040-44386666; contact@spandanaindia.com; <http://www.spandanaindia.com/loan.htm>

MFI extending loans through a sub-sector intervention i.e. dairy development, mainly to milk collection agents and milk producers.

Godrej Agrovets, Mumbai

Gate 2, Pirojsha Nagar, Eastern Express Highway, Vikhroli (E), Mumbai-77, Maharashtra; Tel: 91-22-25188010/20/30; Fax: 91-22-25188485; gavlho@godrejagrovets.com; <http://godrejagrovets.com/aadhaar.htm>

Producer of commercial animal feed also facilitates the provision of credit to farmers (including dairy) and provides a platform for them to sell their produce.

BAIF Development Research Foundation, Pune

(from Sameer Kochhar, Skoch Development Foundation, Gurgaon)

Dr. Manibhai Desai Nagar, Warje, Pune-411058, Maharashtra; Tel: 91-20-25231661; Fax: 91-20-25231662; baif@vsnl.com; http://www.baif.org.in/asp_x_pages/prog_livestock.asp

Promotes dairy husbandry by upgrading low productive non-descript cattle and also trains unemployed local youth in technical aspects of livestock development in rural areas.

(from Girija Srinivasan, Consultant, Pune)

National Dairy Development Board (NDDB), Anand
NDDB, P.B. No. 40, Anand-388 001, Tel: 91-2692-260148/260149/260160; Fax: 91-2692-260157; anand@nddb.coop; <http://www.nddb.org/partners.html>

Institution focussing on planning and organising programmes for development of dairy, agriculture and allied industries along cooperative lines.

Industrial Credit and Investment Centre of India (ICICI) Bank, Mumbai

ICICI Bank Towers, Bandra-Kurla Complex, Mumbai-400051, Tel: 91 22 26536425; Fax: 91 22 26531233 <http://www.icicibank.com>

A private bank, it gives term loans to MFIs, also engages in livelihood promotion and offers BDS to microfinance clients.

The Bellwether Microfinance Fund, Hyderabad

III Floor, 8-2-596, Road No. 10, Banjara Hills, Hyderabad-500034, Tel: 91-40-66460505/5883; Fax:

91-40-66465884; info@bellwetherfund.com; http://www.bellwetherfund.com/product.html

Fund makes equity and debt investments in promising start-up and growing MFIs while providing consulting services to the management of MFIs.

M.S. Swaminathan Research Foundation, Chennai

*(from M. Suresh, Centre for Indian Knowledge Systems, Chennai)**

3rd Cross Street, Institutional Area, Taramani, Chennai-600113, India; Tel: 91 44 22542698, 22541229; Fax: 91 44 22541319 hmrc@mssrf.res.in; http://www.mssrf.or

Non-profit trust, conducts research in coastal systems, biodiversity and biotechnology, eco technology and sustainable agriculture.

Mimo Finance, Uttarakhand

(from Manab Chakraborty, Mimo Finance, Dehradun)

100 Vasant Vihar, Phase I, Dehradun-248 007, Uttarakhand; Tel: 91-135-6451719; info@mimofin.net; http://mimofin.com/products.aspx

MFI focussing on strengthening the economic capacity of urban and rural small business operators.

Recommended Upcoming Events

Sustainable and Integrated Dairy Development in Eastern and North Eastern Region – Status and Strategies, West Bengal, 11–12 December, 2008

(from Monika Khanna, Research Associate)

Sponsored by National Dairy Research Institute, West Bengal. Information available at <http://www.ndri.res.in/files/newletters/Doc1.pdf>; Contact Dr. D. K. Sharma; Organising Secretary; Tel: 033-2582-8264/1548; head_ers@live.com

National convention, to review the dairy development programmes of the region and design the strategies for sustainable and integrated dairy development.



Poverty Microfinance Community

Consolidated Reply

Query: Impact of Bt Cotton – Experiences

Compiled by Gopi Ghosh and Sumeeta Banerji, Resource Persons and T. N. Anuradha and Anjum Khalidi, Research Associates

Issue Date: 17 May, 2007

From Debdatta Sengupta, International Food Policy Research Institute, Washington DC

Posted 27 April, 2007

Dear Members,

India has been active in the field of biotechnology research for a long time and has been one of the few countries in the world to have approved the use of a genetically modified (GM) crop. While this speaks volumes about the science and technology capacity of the country, it has also brought in its wake some criticisms of the technology, including effects of this technology on increased indebtedness of farmers. Bt Cotton is the only genetically modified crop approved for commercial planting in India, and has since been widely adopted in India. Yet, soon after it was approved, reports of growing indebtedness of farmers came in from certain districts within the cotton growing states of India. More recently, several reports made a direct link between the increased occurrence of farmer suicides and the use of Bt cotton in particular regions of Maharashtra and Andhra Pradesh. We are trying to investigate this reported possible relationship between the recent increase in farmer suicides and the use of Bt cotton.

Farmers groups contend that although Bt technology is supposed to reduce the application of pesticides and thereby reduce cost of cultivation, in reality

increased cost and quantity of external inputs required for Bt cotton cultivation (compared to traditional varieties), mainly seeds and water, have impacted the overall cost of cultivation for farmers. They stress that this, amongst other factors, contributes to increased indebtedness at the household level and dependence on loans from MFIs. Inability to repay loans procured at high interest rates from MFIs, in turn, has a role in the incidence of farmers' suicides, particularly in Andhra Pradesh and Maharashtra.

We would like to invite members to share:

- Experiences from the field about what role Bt cotton might have had in farmer's suicides, if any.
- Whether any data or evidence has been collected on using Bt cotton or on farmers' suicides in areas where Bt cotton is cultivated.

We are in the process of writing a paper examining Bt cotton cultivation in India and how that has impacted the farmers in the region. Experiences and facts shared through this discussion would help in enriching the paper by incorporating valuable views from members involved with this issue.

Summary of Responses

Technological advancements in the form of genetically modified (GM) crops have reportedly resulted in pest

Responses were received, with thanks, from

1. Krishnan Iyer, Development Oriented Operations, Research and Surveys, Noida
2. Krishna Kumar, Centre for Community Economics and Development Consultants Society (CECOEDECON), Jaipur
3. Alok Ranjan, Aroh, Patna
4. A. Madhan Kumar, DHAN Foundation, Madurai
5. Prabhat Kumar, Asian Institute of Technology (AIT), Thailand
(Response 1; Response 2; Response 3)
6. Debadutta K. Panda, M. P. Associates, Bhubaneswar
7. Gopi Ghosh, Food and Agriculture Organisation (FAO) of the United Nations, New Delhi
8. S. C. Prasad, Gramin Vikas Trust, Ranchi
(Response 1; Response 2)
9. Wim Polman, FAO, Regional Office for Asia and the Pacific, Bangkok
10. Rohit Raina, ICICI Bank, Mumbai
11. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai
(Response 1; Response 2; Response 3)
12. Bhaskar Goswami, Forum for Biotechnology and Food Security, New Delhi
13. Ramanjaneyulu, Centre for Sustainable Agriculture, Hyderabad
14. Om Prakash Rautaraya, AGRAGAMEE, Bhubaneswar
15. B. L. Menaria, Centre for Sustainable Forest Management (SFM) and Forest Certification, Indian Institute of Forest Management, Bhopal
(Response 1; Response 2)
16. Micky Gupta, Hissar Agriculture University, Hissar
17. Bibhu Prasad Mohanty, Independent Development Consultant, Orissa
18. Ajit Kanitkar, Ford Foundation, New Delhi*
19. C. R. Bhatia, Department of Biotechnology, Mumbai

* Offline Contribution

Further contributions are welcome!

resistance, improved crop quality and nutrition value, better resource use, ecological pay-off, enhanced yield and increased income. However, lack of precise knowledge and awareness of the potential risks and benefits of such high-end technology and unscrupulous elements bent on exploiting the confused situation, have further complicated the cultivation of GM crops. Responding to the query on the impact of Bt cotton and its possible link to farmers suicides, members clarified several scientific and practical issues related to its cultivation, debated on various impacts and suggested ways to improve cultivation of GM crops along with reference to relevant studies.

Respondents clarified that Bt cotton is essentially the infusion of genes of common soil bacterium *Bacillus thuringiensis* (Bt) producing protein to control infestation of bollworms and few other pests. Bollworms being the major pest in cotton consuming largest quantities of pesticides, the technology seems to be quite significant. However, an important fact often ignored by farmers is that Bt cotton does not protect against other cotton pests – that may require additional external application of appropriate pesticides. High cost of seeds, prompt development of resistance by insects, attraction of the plant to other insect pests requiring additional pesticide spray, and plantations requiring 20 percent of cultivation with non-Bt cotton as a refuge for other pests (a requirement which small cotton farmers cannot afford) were some of the practical drawbacks of cultivation of Bt cotton mentioned by members.

Members explained in detail the various reasons for the ineffective implementation of Bt cotton:

- Lack of seed quality certification and control, and incomplete bio-safety tests violating field trial norms by regulating agencies.
- Confusion among farmers on the right kind of Bt cotton seeds – owing to large number of Bt cotton hybrids available in the market.
- Following the United State's strategy for maintaining sowing distances to prevent cross-pollination and resistance to bollworm, despite the two countries having different pests.
- Regulatory failures to control seed companies engaging in deceptive/aggressive marketing techniques, i.e. selling Bt cotton varieties banned by the Genetic Engineering Approval Committee, as reported in cases from Maharashtra-Karnataka border, Rajasthan and Karnataka.
- Frequent release of new hybrids to overcome

pest resistance – confusing farmers and giving companies a monopoly on seed prices.

- Inadequate testing of Bt cotton varieties under major agro-climatic conditions.
- Insufficient data and comparison on performance of Bt cotton with alternative technologies (e.g. high or low rainfall situations).
- Lack of farmers' awareness on various aspects of Bt technology such as, farmers using seeds harvested from Bt crops to plant the next crop to reduce costs, and subsequently experiencing failures as such seeds do not have desired effects of Bt gene.
- Seed companies/traders not accountable towards their promises on crops failure.

Respondents also underscored that while Bt cotton varieties in India resulted in higher average yields, lower pesticide use and increased net returns as compared to conventional cotton, a high degree of field-to-field and season-to-season variance in its production was observed in India.

Referring to the issue of farmer debt and suicides, members felt apart from the technology still to prove its universal efficacy across various cotton growing regions, improper cultivation of Bt cotton is also a contributor to this problem. Members listed several other reasons for the failure of Bt cotton, including spurious seeds; poor quality pesticide and its improper application; bad crop management practices; failure of monsoon; lack of organised credit; and limited marketing facilities. Some of the negative impacts of Bt cotton cultivation which were reported, included partial or total crop failure, poor yield and quality, incidences of high pest insurgence and new pests, skin allergies, deaths of sheep grazing on Bt cotton, and reduced soil fertility.

Moreover, respondents noted the high cost of Bt cotton seeds and other inputs, to some extent, contributed to the problem of indebtedness. However, this seemed to be a complex issue of risk, vulnerability, imperfect produce markets, exploitative intermediaries, lack of access to basic services and other enabling infrastructure. Thus the problem of debt transcends the simple issue of credit. On the linkage between the issue of increased indebtedness and role of MFIs, members felt that very few MFIs directly financed cotton farmers. Member also referred exceptional cases where high interest rates might have aggravated farmer's debt burden.

Respondents also shared research and reports on the positive and negative impact of Bt cotton. According to a one-year trial study in India by Qaim and Zilberman, planting GM crops can increase crop yield up to 87 percent though the data, analysis, and conclusions were questionable. Additional research from the Biotech News showed Bt cotton is safe and beneficial, highlighting IIM Ahmedabad study, which observed profits received by Bt cotton-growing farmers; global reports outlined the benefits accrued to small farmers, resulting in poverty alleviation; and another experience shared from Punjab where the Bt cotton farmers were economically better off.

At the same time, members shared reports disputing claims that Bt cotton increased yields, arguing the fact that Bt cotton increased costs of cultivation. A study by the Centre for Economic and Social Studies supported this, showing that even with an average yield, farmers suffered losses due to high costs. Other studies by Centre for Sustainable Agriculture and Central Research Institute for the Dry Land Agriculture found the productivity of Bt cotton did not exceed non-Bt cotton, and a Deccan Development Society study found that farmer suicides in Andhra Pradesh were due to the cultivation of banned Bt cotton varieties, resulting in failed crops.

Members also suggested strategies for effective implementation of evolving technologies, like GM crops:

- Pre-release field evaluation of all Bt seeds for all economic traits under different agronomic situations.
- Government agencies to enforce and monitor GM cultivation through certification of all seed companies and dealers, and ensure fair play and transparency through the participation of MFIs or farmers' organisations.
- Emphasise farmers' awareness, education and training through extension, such as farmers' field schools.
- Have non-biased institutions generate local specific information on long and short-term social, economic and ecological impacts of GM crops.
- Create high quality certification standards for genetically modified seeds.
- Collect local data on insect populations and build-up of resistance under different cropping regimes.
- Ensure fair and competitive functioning of

agriculture markets by making price information available to small and marginal farmers on a regular basis.

- Sensitise MFIs on farming and provide accurate information along with proper financial support.
- Development of Bt cotton seed varieties rather than hybrids as suggested in the Planning Commission Report.

Finally, respondents recommended promoting village level enterprises for farmers; providing better credit delivery; using the Rural Employment Guarantee Scheme, to offer employment opportunities for marginal farmers groups; engage government and non-governmental agencies in institutional capacity building and networking; and highlighting the case of successful farmers (to encourage self-employment).

Impact analysis of Bt cotton is an immensely complex task. Members noted the widespread gap in information and knowledge on the practical benefits as well as adverse impact of Bt cotton makes it difficult to support or dispute claims. They argued insufficient research output, ineffective regulatory apparatus, mixed yields and exploitation of farmers, coupled with farmer's lack of awareness on various aspects of the technology have resulted in a situation where it is difficult to make any conclusive links between Bt cotton and farmers' suicides. Therefore, as the "Bt cotton debate continues", it becomes important to have a better understanding of the ground situation, which calls for more in-depth and incisive research over several agro-ecological and socio-cultural settings.

Comparative Experiences

Rajasthan

Bt Cotton Seeds Sold as Hybrid Seeds

(from Krishna Kumar, Centre for Community Economics and Development Consultants Society (CECOEDECON), Jaipur)

In Ganganagar, Hanumangarh and Alwar districts, farmers were deceived by dealers selling Bt cotton seeds as hybrids. Dealers adopted unscrupulous marketing strategies like saying "hybrid seed are the best technology for cotton cultivation." Illiterate farmers were tempted by the dealer's use of fancy technical names of hybrids and took loans to buy these hybrid seeds. Now these farmers are in a huge debt because of the high cost of seeds, low yields and subsequent low returns.

Karnataka

Bt Cotton Cultivation without Government Approval

(from Prabhat Kumar, Asian Institute of Technology (AIT), Thailand; response 1)

In northern Karnataka, companies started selling Bt cotton as 'miracle seeds' in 2001-2002. The crop looked different from the other traditional cotton crops. However, at this point the Government of India had not cleared the sale of Bt cotton seeds. The introduction of Bt cotton seeds for field trials, before the commercial launch was incorrect. These improper sales initially resulted in good yields during testing period, but later caused havoc to the land and the livelihoods of farmers.

Andhra Pradesh

No Accountability to Large Scale Failure of Bt Cotton

(from Ramanjaneyulu, Centre for Sustainable Agriculture, Hyderabad)

Mahyco company's Bt cotton hybrids in Warangal district lead to large scale failure. The company refused to take responsibility for not meeting the promises made when selling the seeds and to pay up for the losses borne by farmers in terms of low yield and high input. When farmers raised complaints about the situation, the Warangal Joint Director awarded a compensation of about Rs. 3.5 crore to the farmers and later GEAC withdrew its authorisation for cultivation of Bt cotton hybrids.

Punjab

Successful Use of Bt Cotton by Farmers

(from Micky Gupta, Hissar Agriculture University, Hissar)

The former Development Commissioner of Punjab worked to have various Bt cotton varieties approved by the Central Government. These efforts have helped bring prosperity among cotton farmers. The state has registered a record cotton production of 27 lakh bales this year because of Bt cotton varieties. In addition, cotton growers received better prices for their produce and saved money because they did not have to use as much pesticide as compared for traditional cotton varieties.

Multiple States

Lacunae in Implementation of Bt Cotton

(from Krishnan Iyer, Development Oriented Operations, Research and Surveys, Noida)

In villages along the Maharashtra-Karnataka border, two companies were responsible for distribution of Bt cotton seeds to farmers. However, the seeds were not distributed to farmers and a false list of farmers growing Bt cotton was generated. When farmers committed suicide in this region, Bt cotton was blamed, while in reality the farmers had not grown Bt cotton. The companies responsible for marketing and distribution of Bt cotton was not regulated appropriately.

Related Resources

Recommended Documentation

Economics of Agricultural Biotechnology in Crop Protection in Developing Countries – The Case of Bt-Cotton in Shandong Province, China

(from Prabhat Kumar, Asian Institute of Technology (AIT), Thailand; response 1)

By Diemuth E. Pemsli; Pesticide Policy Project, Hannover; May 2006

<http://www.solutionexchange-un.net.in/food/resource/res090507btcotton.pdf>

Studies application of Bt-cotton2 in Northeast China, assessing the contribution of the insect resistant trait in Bt-varieties to productivity and profitability of small-scale cotton cultivation.

Marketing of Bt Cotton In India: Aggressive, Unscrupulous and False

(from Rohit Raina, ICICI Bank, Mumbai)

Monitoring and Evaluation Committee (MEC) to Monitor Bt Cotton: Consortium of NGOs

http://www.grain.org/research_files/Marketing_in_India.pdf

Provides case studies depicting striking contrast between promotional campaigns and its flat refusal to pay any compensation to the farmers by the Bt seed companies.

Fatal Feed

(from Prabhat Kumar, Asian Institute of Technology, Thailand; response 2)

By K. Venkateshwarlu; Frontline, Vol. 24, Issue 8; April 21-May 4, 2007

<http://www.samachar.com/showurl.php?regional=yes&rurl=http://www.flonnet.com/>

Report on the negative impact of genetically modified Bt cotton in Andhra Pradesh, that livestock die after grazing on Bt cotton fields.

Did Bt Cotton Save Farmers in Warangal?

(from Prabhat Kumar, Asian Institute of Technology, Thailand; response 3)

By A. Qayum and K. Sakkhari; AP Coalition in Defence of Diversity, Deccan Development Society; 2002

<http://www.solutionexchange-un.net.in/food/resource/res040507.pdf>

Results of impact study on Bt cotton conducted among farmers who cultivated Bt and non-Bt hybrids, including the views of scientists, government officials, and agricultural market committee.

Success Case Replication—A Manual for Increasing Farmer Household Income

(from Wim Polman, FAO, Regional Office for Asia and the Pacific, Bangkok)

By Jan B. Orsini; FAO, Bangkok; 2000

<http://www.fao.org/DOCREP/004/AC159E/AC159E00.HTM>

Enterprise training manual explaining how to exchange and replicate the experiences of successful farmers; intended to be a learning tool for generating livelihood opportunities.

(from Ramanjaneyulu, Centre for Sustainable Agriculture, Hyderabad)

SC Allows Approved Field Trials of GM Crops

The Hindu; May 8, 2007

<http://www.hinduonnet.com/thehindu/holnus/001200705081823.htm>

Reports on the Supreme Court notification to conduct approved field trials of genetically modified (GM), including Bt cotton seeds, in the country subject to certain restrictions.

Bt Cotton Vs. Non-Pesticidal Management of Cotton

Centre for Sustainable Agriculture

http://www.grain.org/research_files/bt_vs_npm.pdf

Findings of a study to compare various aspects of Bt Cotton as a solution for pest problems in cotton crop and NPM (Non-Pesticidal Management) approach.

Farmers Gaining More from Growing Bt Cotton

By K.V. Kurmanath; Business Line, The Hindu; January 5, 2007

<http://www.thehindubusinessline.com/2007/01/05/stories/2007010502731200.htm>

Compares the physical yield obtained in Bt cotton fields against fields planted with non-Bt cotton and also reports that official Bt cotton yields more than the unofficial version of Bt cotton.

(from Bibhu Prasad Mohanty, Independent Development Consultant, Orissa)

SC Allows Field Trials of GM Crops

Financial Express; May 9, 2007

http://www.financialexpress.com/fe_full_story.php?content_id=163639

Article reports on the Supreme Court's authorisation of commercial cultivation of Bt cotton, based on four approved events demonstrating its successful cultivation.

SC has not Allowed Open Field Trials

Supreme Court of India

<http://courtnic.nic.in/supremecourt/temp/wc26005p.txt>

Supreme Court orders the GEAC to verify the species of Bt cotton used for commercial purposes, specifically regarding toxicity or allergenicity.

Village Cluster Adoption Programme a Success – Cotton Revolution in Punjab

(from Micky Gupta, Hissar Agriculture University, Hissar)

By K.S. Chawla; Ludhiana Tribune; April 25, 2007

<http://www.tribuneindia.com/2007/20070426/ldh1.htm>

Article on the rise in average cotton yield to 965 kg lint per hectare in Punjab – 33 percent higher than the world average of 724 kg lint per hectare – after the introduction of Bt cotton.

Bt Cotton Experience has Indicated that the Technology has been Beneficial to Farmers

(from C. R. Bhatia, Department of Biotechnology, Mumbai)

Rolly Dureha; BioSpectrum, Volume 5, Issue 3; 7 March, 2007

<http://biospectrumindia.com/content/search/showarticle.asp?arid=95066&way=search>

Reports views of B. S. Parsheera, Chairman, GEAC who talks through the trials and tribulations in the journey of India's first biotech crop—the Bt cotton.

Bt Cotton – The Debate Continues

(from B. L. Menaria, Centre for Sustainable Forest Management (SFM) and Forest Certification, Indian Institute of Forest Management, Bhopal; response 2)

BioSpectrum; 12 November, 2003

<http://biospectrumindia.com/content/features/agri/103111201.asp>

Reports the study comparing the performance of Bt to non-Bt cotton which finds that Bt-cotton is not performing well and is lagging behind the normal cotton in many respects.

(from Gopi Ghosh, FAO, New Delhi)

State of Food and Agriculture 2004 – Agricultural Biotechnology: Meeting the Needs of the Poor?

FAO, Rome; 2004

<http://www.fao.org/docrep/006/Y5160E/Y5160E00.HTM>

Report reviews the socio-economic impact of transgenic crop adoption, especially insect-resistant cotton, particularly in developing countries.

Bt Cotton Brands Leave AP Farmers Confused

By Saira Kurup; Times News Network; April 22, 2007

Article refers various studies on the impact of Bt cotton on farmers and cattle, also discusses the challenge of making an informed decision considering the market offering hundreds of brands.

Serving Farmers and Saving Farming: A Draft National Policy for Farmers

By Jai Kisan; National Commission on Farmers; 2004

<http://krishakayog.gov.in/4threport.pdf>

Recommends a research strategy for studying Bt cotton, for institutions to use to concentrate on developing varieties rather than hybrids, so that farmers can keep their own seeds.

Bt Cotton in India

By Qaim and Zilberman; Current Science, Vol. 86, No. 6; March 25, 2004

<http://www.ias.ac.in/currsci/mar252004/758.pdf>

Paper studies the claim that GM crops dramatically increase crop yield by analysing various data and reports.

Biosafety of Bt-Crops – Safe Transition

By P. Ananda Kumar; Biotech News, Newsletter of Department of Biotechnology, Vol. 2, No. 2; April 2007

http://www.biotechnews.gov.in/fullstory_1.html

Reports Bt cotton seeds are safe to use and beneficial to farmers, societies, non-target organisms, bio-diversity and the environment in general.

(from T. N. Anuradha, Research Associate)

GM in India: The Battle over Bt Cotton

By T. V. Padma; SciDev.Net; December 20, 2006
<http://www.scidev.net/Features/index.cfm?fuseaction=readFeatures&itemid=570&language=1>

Debates the checkered history of Bt cotton in India marked by pest resistance and farmers' suicides which has polarised opinions over the technology.

Bt Cotton Increased Farmers' Indebtedness in Vidarbha: Gene Campaign Study

Agriculture and Food Security, Info Change India
http://www.infochangeindia.org/Agriculture/Top.jsp?section_idv=10#4806

Study of 500 cotton farmers in Maharashtra who cultivated Bt cotton which failed, adding to their debts.

AP Farmers Hit by Failed Bt Cotton Crop

By Uma Sudhir; NDTV.com, Hyderabad; January 22, 2006

Article gives case studies of desperate farmers in Andhra Pradesh who are crippled with debt and with increasing rates of Bt cotton crop failure.

Bt Cotton Driving Farmers to Suicide

Business Line, The Hindu; May 18, 2006
<http://www.thehindubusinessline.com/2006/05/19/stories/2006051900180800.htm>

Reports allegations by Vandana Shiva that Bt cotton was responsible for the increased cost of farm production and indebtedness of farmers, forcing many of them to suicide.

Permission to Commercialise Bt Cotton: A Death Trap for Indian Farmers

Navdanya; March 22, 2002
<http://www.navdanya.org/news/02march27.htm>
Note by an NGO expressing unhappiness over Government clearance to the controversial genetically engineered Bacillus thuringiensis (Bt) cotton seed for commercial planting in India.

Bt Cotton is Better, Feel Dharwad Farmers

BioSpectrum; March 7, 2007
<http://www.biospectrumindia.com/content/CoverStory/10703072.asp>

Article provides case studies of the experiences of Bt cotton farmers, including successes and failures.

(from Anjum Khalidi, Research Associate)

India's Agrarian Crisis: An Urgent Opportunity

By Mira Kamdar; Asian Source; May 2007
<http://www.asiasource.org/asip/ruralpoverty.cfm#agrarian>

Discusses the link between the substantial increase in rural poverty and farmers' suicides, and cites possible strategies for alternative agricultural development.

Causes of Farmer Suicides in Maharashtra

Tata Institute of Social Sciences, final report submitted to the Mumbai High Court; March 2005
<http://www.tiss.edu/Causes%20of%20Farmer%20Suicides%20in%20Maharashtra.pdf>

Study looks into linkages to Bt Cotton (Section IV) with farmers' suicides and concludes that repeated crop failures, rising costs of cultivation, and indebtedness are the main causes.

Recommended Organisations

SAMPARK, Madhya Pradesh

(from Rohit Raina, ICICI Bank, Mumbai)

Contact: Neilesh Desai, Jhabua District, Madhya Pradesh; Tel: 91-7391-261017/2655833; www.sampark.org/index.htm

SAMPARK was a part of the Monitoring and Evaluation Committee examining the impact of Bt cotton on farmers.

(from Bhaskar Goswami, Forum for Biotechnology and Food Security, New Delhi)

Deccan Development Society, Hyderabad

101, Kishan Residency, 1-11-242/1, Street No. 5, Shyamlal Buildings Area, Begumpet, Hyderabad-500016, Andhra Pradesh; Tel: 91-40-27764577/744; hyd1_ddshyd@sancharnet.in, hyd2_ddspvr1@sancharnet.in; <http://www.ddsindia.com/www/default.asp>

Involved in sustainable environmental practices and people's livelihood systems, through community grain bank and gene fund; has also conducted studies on impact of Bt cotton in AP.

Centre for Sustainable Agriculture (CSA), Secunderabad

12-13-445, Street No-1, Tarnaka, Secunderabad-500017, Andhra Pradesh; Tel: 91-40-27017735; csa@csa-india.org; <http://www.csa-india.org/>

Has taken up many studies, critiques on Bt cotton and also has been lobbying strongly with the regulatory authorities against Bt cotton.

Gene Campaign, New Delhi

235/A, Sainik Farms, New Delhi-110062, Tel: 91-11-29556248; genecamp@vsnl.com; www.genecampaign.org

Research and advocacy organisation working towards empowerment of local communities to retain control over their genetic resources by advocating against using Bt cotton.

(from Ramanjaneyulu, Centre for Sustainable Agriculture, Hyderabad)

Central Research Institute for Dry Land Agriculture (CRIDA), Hyderabad

Santosh Nagar, Hyderabad-500059, Andhra Pradesh; Tel: 91-040-24530177/61; root@crida.ernet.in; <http://www.crida.ernet.in/>

Conducts problem oriented multi-disciplinary research on issues like Bt cotton, and undertakes basic and applied research designed to contribute towards sustainable development strategies.

Centre for Economic and Social Studies (CESS), Hyderabad

Begumpet, Hyderabad-500016, Andhra Pradesh; Tel: 91-40-23402789; postmaster@cess.ac.in; <http://www.cess.ac.in/cesshome/cessmain.asp>

Engages in interdisciplinary research in analytical and applied areas of social sciences, studies the yields of official Bt cotton seeds versus the unofficial ones.

Central Institute for Cotton Research (CICR), Nagpur

Post Bag No. 2, Shankar Nagar Post Office, Nagpur-440010, Maharashtra; Tel: 91-7103-275536; cicrngp@rediffmail.com; www.cicr.gov.in

One of its mandates is to create new genetic variability for location specific adoption in cotton-based cropping systems like Bt cotton.

Recommended Portals and Information Bases

Insect Resistance

(from Prabhat Kumar, Asian Institute of Technology, Thailand; response 2)

<http://www.biotech-info.net/bt-transgenics.html>
Contains discussions, facts and opinions on Bt cotton through studies, reports and media coverage.

(from Bhaskar Goswami, Forum for Biotechnology and Food Security, New Delhi)

Vidarbha Jan Andolan Samiti

<http://www.turbulence.org/blog/archives/002804.html>

Blog set up as part of campaign against continuing farmers' suicides and Bt cotton use, also lists names of farmers who have committed suicide.

Genetic Engineering Approval Committee (GEAC)

<http://dbtbiosafety.nic.in/committee/geac.htm>
GEAC is authorised to approve Genetically Modified (GM) organisms – including production, marketing, commercialisation, and details on functions and composition like Bt cotton.

Recommended Contacts and Experts

(from Madhan Kumar, DHAN Foundation, Madurai and Ajit Kanitkar, Ford Foundation, New Delhi)*

Dr. Sankar Datta, Managing Director, BASIX, Hyderabad

Indian Grameen Services, 5-1-664, 665, Surabhi Arcade, III Floor, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 91-40-3051-2500/1; dattasankar@basixindia.com

Has conducted various impact studies on Bt cotton, including its sale as hybrid cotton seeds, pesticide usage and farmers' returns.

Dr. Pankaj Kole, Consultant, Project Monitoring and Administration, IWMI-TATA Water Policy Research Programme, International Water Management Institute, Anand

Elecon Premises, Anand-Sojitra Road, Vallabh Vidyanagar-388120, Anand, Gujarat; Tel: 91-2692-229-3111/12/13;; p.kole@cgiar.org

Studied the impact of Bt cotton cultivation on water resources; results showed that the cultivation of Bt cotton protected groundwater.

* Offline Contribution

III.
***Microfinance for the Livelihoods of the
Disaster Affected and Vulnerable People***



Consolidated Reply

Query: Microfinance and Livelihood Support Projects in Disaster Affected Localities – Experiences and Examples

Compiled by Navin Anand and G. Padmanabhan, Resource Persons, Nupur Bahl, Nupur Arora, Research Associates and Shweta Tyagi, Intern
Issue Date: 27 June, 2008

From Toms K. Thomas, Evangelical Social Action Forum (ESAF), Mannuthy, Trichur
Posted 5 June, 2008

I work with Evangelical Social Action Forum (ESAF), a national development organisation in Kerala and we are currently doing a livelihood support project in Kanya Kumari district and plan to implement another short-term livelihood support project in some Tsunami affected districts in Kerala. While analysing these two projects and looking into the available literature, we are unable to understand how far short term (Fast Track) livelihood projects are practical in disaster-affected localities.

In disaster-affected areas, after the relief activities, there can be a number of microfinance related interventions, such as microfinance services for transferring the government assistance and remittance from friends and relatives to the affected families; micro insurance including health, life, livestock and general insurance; consumption and housing credit; productive credit for selected livelihoods in agriculture, agri-allied and non-farm sector; lease finance (micro-leasing); savings services; and other such microfinance services.

Besides the above mentioned two projects, we are also in the process of organising a workshop to share

experiences and advice on livelihood promotion in disaster-affected localities. I request members to share documents (case studies, reports, etc.) and experiences on:

- Methods and approaches for creating sustainable systems for planning, implementation, management and finance of 'Fast Track' livelihood promotion projects in disaster affected areas, including withdrawal strategy and role of Panchayati Raj Institutions (PRIs).
- Microfinance products and services as well as delivery mechanism required for the social and economic securities as well as livelihood promotion of the families of disaster-affected areas.
- Strategy for investment in existing enterprises to leverage the market potential in terms of creating new livelihoods.

Your experiences and suggestions will not only help us in designing and implementing the project in a sustainable manner but can also be used for developing strategies for disaster-affected areas elsewhere in the country.

Responses were received, with thanks, from

1. Abhishek Mendiratta, Consultant, New Delhi
2. Vijay Pratap Singh Aditya, Ekgaon Technologies, New Delhi
3. Rudra Prasanna Rath, GoI-United Nations Development Programme (UNDP) Disaster Risk Management Programme, Orissa
4. Smita Premchander, Sampark, Bangalore
5. Praveen Kumar Amar, P. K. Management Consultants, New Delhi
6. Sanjeev Kumar, Independent Consultant (Entrepreneurship and Livestock-based Livelihoods), Lucknow
7. Girija Srinivasan, Consultant, Pune
8. Shivendra Sharma, Plural India, Gurgaon
9. N. Srinivasan, Consultant, Pune
10. Baladeb Sen, Microfinance Consultant, Chennai
11. Navin Anand, UNDP, New Delhi
12. Kalika Mohapatra, UNDP, Bhubaneswar
13. G. K. Agrawal, Rural and Microfinance Consultant, Mumbai
14. Susant Kumar Sahoo, UNDP, Bhubaneswar
15. Kailash Ch Pandey, Uttarakhand Bio-Fuel Ltd, Dehradun
16. Prabhat Labh, CARE India, New Delhi

Further contributions are welcome!

Summary of Responses

Livelihood development activities in post-disaster situations have several limitations, including the unavailability of goods and services, high prices, and imbalanced market conditions. Responding to the query on providing livelihood support in disaster-affected areas, discussants explored the prospects and constraints of “Fast Track Livelihood Projects,” and shared various methods for planning, implementing and managing “Fast Track” livelihood promotion projects, discussed different microfinance products and services, and outlined good investment strategies for post-disaster conditions.

Respondents pointed out the first step in providing support after a disaster is to understand the livelihood systems and socio-economical conditions in the affected area. Globalisation has made the lives of people engaged in traditional occupations very vulnerable. By studying the livelihood situation,

planners can assess the status of affected sectors and the possibility of reviving livelihoods, and then plan appropriate activities (i.e. short-term: cash for work and cash grants, and long-term: microfinance, skills training, business development services and marketing service). An NGO in Tamil Nadu successfully used this strategy to improve existing livelihoods through value additions in disaster prone coastal areas. The next step is to identify the marginalised groups, and ensure plans include their unique needs.

Following disasters, families are often unable to engage in any livelihood activities due to the loss of assets. To address this, members suggested providing fast track skills training, exposure visits, and basic advisory services. They also opined that PRIs could play a key role, specifically in planning and implementing different livelihood activities and helping gain the support of Government departments. Moreover, to ensure long-term sustainability of these activities, PRI members need training to develop their capacity.

Participants gave suggestions for conceptualising microfinance interventions in disaster-affected areas, specifically identifying three key stages for designing microfinance programmes: 1) formation and stabilisation; 2) creation of savings mobilisation, and credit taking capacity and linkages; and 3) organisation building—establishing management and monitoring systems for the long-term sustainability of community managed microfinance systems.

Discussants also identified specific microfinance services that organisations could provide in affected areas:

- Transfer of assistance and remittances—transferring government assistance and remittances from friends and relatives to families in disaster-affected areas.
- Transferring money, including innovative methods such as mobile phone banking.
- Micro insurance, including health, life, livestock.
- Lease financing (micro-leasing) for affected families that need support for getting assets, without providing any collateral.
- Management of donation funds—management and proper utilisation of donations.

Additionally, they recommended using ICTs to help facilitate service delivery and introducing a moratorium of one year (or more) to help people establish business and start getting sufficient cash inflows.

Along with microfinance, affected families also require savings (both mandatory and voluntary) and credit products. Organisations could link savings schemes with livelihood loans, and encourage people to save money towards starting an enterprise or some other livelihood activity, using their savings as margin money or working capital. Credit products like consumption loans and working capital loans could be customised in disaster-affected areas to cater to individuals requiring loans to start or re-establish income-generating activities.

While appreciating the importance of providing post-disaster livelihood support, some members felt conventional microfinance service packages might not have the necessary tools to properly appraise livelihood needs and will be difficult to implement. Instead, they suggested microfinance organisations could offer suitable insurance products to financially mitigate the risk posed by disasters in terms of loss of lives, assets and income. Discussants also raised concerns about the fast track approach, noting it has the potential to be poorly planned and coordinated. They were also of the view there would be insufficient time for training and skill development and it would be difficult to find markets and investment capital for resuming livelihoods, given the “one-size-fits-all finance products” offered through fast track projects, which rarely support livelihood activities and only ease liquidity constraints.

In context of leveraging enterprises, respondents were of the view that it requires substantial investment. Thus, they recommended for financing backward and forward linkages necessary to scale-up enterprises. Organisations need to offer either social capital in the form of pure equity or a long-term soft loan.

While examining the pros and cons of fast track livelihood projects in disaster-affected areas, discussants agreed the approach could prove an effective tool, if appropriately conceptualised and implemented.

Comparative Experiences

Tamil Nadu

Interventions in Value Chain Help Establish Sustainable Livelihoods for Farmers

(from Vijay Pratap Singh Aditya, Ekgaon Technologies, New Delhi)

Coastal areas in the state are subject to periodic cyclones and flooding resulting in large numbers of

farmers being forced to migrate. The Covenant Centre for Development (CCD) worked to create SHGs, encourage internal lending, skill building and to improve processes within the value chain. These efforts have resulted in the development of enterprises, improved access to markets, establishing institutional linkages and environment resource management.

Maharashtra

Community Participation in Rehabilitation Project, Mumbai

(from Nupur Bahl, Research Associate)

Swayam Shikshan Prayog (SSP) started supporting rehabilitation projects to address the massive destruction caused by the 1993 earthquake. SSP involved grassroots women’s groups in a broad range of housing, planning and infrastructure programmes. These efforts have now been scaled up into a community-based development strategy where grassroots women’s groups function as leading actors in the context of local development and governance activities in 800 villages across eight districts

Andhra Pradesh

Reconstruction Housing Programme, Dibbalpalam

(from Shweta Tyagi, Intern)

NASA started an awareness campaign and conducted health camps after the cyclone of 1995 washed away thatched houses in Dibbalapalam. They formed a Women’s Sangham and then facilitated the construction of 74 houses with the active participation of the women’s organisation, which organised its own brick-making unit, and mobilised voluntary labour, monitored the construction and introduced cost control measures

Related Resources

Recommended Documentation

(from Shivendra Sharma, Plural India, Gurgaon)

Re-imagining Microfinance

Article; by Alex Counts; Stanford Social Innovation Review; United States of America; Summer 2008

Available at http://www.ssireview.org/images/articles/2008SU_feature_Counts.pdf

Analyses a new vision of microfinance as a platform, not a product, which can be used in post-disaster situations to benefit individuals and for developing enterprises.

In Microfinance, Clients Come First

Article; by Srikant M. Datar, Marc J. Epstein and Kristi

Yuthas; Stanford Social Innovation Review; United States of America; Winter 2008

Available at http://www.ssireview.org/images/articles/2008WI_feature_datar_epstein_yuthas.pdf

Discusses how MFIs can focus on helping their clients to build successful enterprises and sustainable systems, and create new livelihoods, including in post-disaster situations.

Waves of Change – A Tsunami Relief Story

(from Nupur Bahl, Research Associate)

Film; UNDP; 17.55 minutes; 2006

Available at http://www.undp.org.in/index.php?option=com_content&task=view&id=90&Itemid=168

Documents achievements of UN/GoI efforts to rehabilitate and “build back better” after Tsunami, building homes, livelihoods & infrastructure, and doing community preparedness planning.

Farming-Related Livelihoods Rehabilitation Strategy for the Disaster-Affected Areas of Yogyakarta and Central Java Provinces

Document; Government of The Republic of Indonesia; Ministries of Agriculture, Marine Affairs and Fisheries and Forestry; FAO

Available at http://www.fao.org/fileadmin/templates/tc/tce/pdf/Indonesia_Farming_Strategy_Jan07.pdf

Describes rehabilitation interventions to develop livelihoods, by conducting damage assessments, examining agro-ecological zones, preparing budgets, & creating M&E checklists/indicators.

Sustaining Livelihoods in Disaster-Prone and Tribal Areas of Gujarat

Newsletter; India Resident Mission of the Asian Development Bank; August 2004

Available at <http://www.adb.org/Documents/Periodicals/INRM/INRM-200408.pdf>

Discusses sustainable approaches to rural poverty reduction by promoting non-traditional livelihoods & piloting new ways to sustain income generation among poor in disaster prone areas.

(from Shweta Tyagi, Intern)

Surviving Disasters and Supporting Recovery: A Guidebook for Microfinance Institutions

Paper; by Eileen Miamidian, Margaret Arnold, Kiendel Burrit and Marc Jacquand; The World Bank; Washington D.C.; February 2005

Available at: http://www.unCDF.org/english/microfinance/pubs/thematic_papers/Disasterguidefinal.pdf

Discusses how microfinance can help mitigate the impact of disasters, by promoting livelihood options in disaster prone areas.

Pre-Disaster Planning to Protect Microfinance Clients

Papers; USAID – Microenterprise Best Practices (MBP) Project; United States of America; 1998

Available at http://www.microfinancegateway.org/files/1757_1757.pdf

Looks at various ways, such as pre-disaster planning, to ensure local communities are protected in disaster prone areas, through the creation of sustainable livelihood systems.

Recommended Organisations and Programmes

(from Vijay Pratap Singh Aditya, Ekgaon Technologies, New Delhi)

The Covenant Centre for Development (CCD), Madurai

18 C/1, Kennett Cross Road, Ellis Nagar, Madurai-625010, Tamil Nadu; Tel: 91-452-260-77-62; Fax: 91-452-230-03-69; mdu_ccd@sancharnet.in; www.ccd.org.in; Contact N. Muthu Velayutham, Secretary

Supports microfinance programmes that enable the poor, uses a development strategy designed to establish secure livelihoods, including post-disaster situations.

The International Crops Research Institute for the Semi-Arid Tropics (ICRISAT)

Patancheru-502324, Andhra Pradesh; Tel: 91-403-071-30-71; Fax: 91-403-071-30-74; icrisat@cgiar.org; www.icrisat.org

Works towards improving people's livelihoods in crop, livestock, tree production systems in the semi-arid tropics through integrated genetic and natural resource management.

(from Girija Srinivasan, Consultant, Pune)

Development of Humane Action (DHAN) Foundation, Madurai

18, Pillaiyar Koil Street, S.S. Colony, Madurai-625016, Tamil Nadu; Tel: 91-452-261-7-94/08-05; Fax: 91-452-260-22-47; ghan@md3.vsnl.net.in; <http://www.ghan.org/aboutghan/index.php>

Works towards bringing changes in the livelihoods through innovations in development, which can affect the lives of the poor in a sustainable manner, including in post-disaster situations.

South Indian Federation of Fishermen Societies (SIFFS), Trivandrum

Karamana, Trivandrum-695002, Kerala; Tel: 91-471-234-37-11, 234-31-78; Fax: 91-471-234-20-53; admin@siffs.org; <http://www.siffs.org/Index.aspx?Page=../SiffsResponse/FisheryLivelihoods.aspx&tblName=Divservice&tblsubName=tblsubService>

Works for the protection and enhancement of livelihoods of fishing communities using appropriate technology and microfinance services, including disaster prone coastal areas.

(from Nupur Bahl, Research Associate)

Orissa Development Technocrats' Forum (ODTF), Bhubaneswar

256, Forest Park, Bhubaneswar-751009, Orissa; Tel: 91-674-2595850/1, 2595627; Fax: 91-674-2595254; dtfindia@yahoo.co.in; <http://www.geocities.com/dtfindia/index.htm>

Facilitates a rural housing delivery system through "Promotion of Appropriate Construction Technologies & Opportunities for Sustainable Livelihoods" project, including disaster prone areas.

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 91-040-30512500/1; Fax: 91-040-30512502; http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=181&Itemid=198

Livelihood promotion institution and has developed weather insurance product; its work was recognised by the Government of India and widely replicated.

CARE India, Hyderabad

6-3-608/1, Anand Nagar Colony, Khairatabad, Hyderabad-500004, Andhra Pradesh; Tel: 91-40-23313998; Fax: 91-40-23323441; cbox-ap@careindia.org;

<http://www.careindia.org/ManageProgrammeKey/VisitProgrammeDetail.aspx?ProgramKeyID=28>; Contact Dev Prakash; Team Leader, Tsunami Response Programme; devprakash@careindiain.org

Carried out the Tsunami Relief Programme (TRP), which provided micro insurance to victims of the 2004 disaster through a tie-up with partner NGOs and private sector organisations.

Royal Sundaram Alliance Insurance Company Limited, Chennai

Sundaram Towers 45 & 46, Whites Road, Chennai-600014, Tamil Nadu; Tel: 91-44-28517387; Fax: 91-

44-28517376; customer.services@in.royalsun.com; <http://www.royalsundaram.in>

Partnered with CARE India under the Tsunami Relief Programme (TRP) in Tamil Nadu to provide micro insurance to victims of the disaster.

Pondicherry Multipurpose Social Service Society (PMSSS), Pondicherry

14th St. Therese Street, Archbishop's House, Pondicherry-605001, Tel: 91-413-4201190; Fax: 91-413-4200190; pmssspandy@hotmail.com; <http://www.pmsss.org.in/ict.htm>

Started the system of Village Information Centres in post-disaster affected villages (after 2004 tsunami), issuing warnings of imminent disasters; helps people to better protect their livelihoods.

United Nations Development Programme (UNDP), New Delhi

55 Lodhi Estate, New Delhi-110003, Tel: 46532333; Fax: 24627612; webadmin.in@undp.org; http://www.undp.org.in/index.php?option=com_content&task=view&id=21&Itemid=79; <http://data.undp.org.in/dmweb/tsunami/UN%20Recovery%20Framework.pdf>

Works on disaster mitigation and preparedness (including protection and restoration of livelihoods) and did extensive risk mapping exercises through its tsunami recovery programme.

Swayam Shikshan Prayog (SSP), Mumbai

101, 1st Floor, Baptista House No. 76, Gaothan Lane No. 1, Behind Paaneri Showroom, S.V. Road, Andheri West, Mumbai-400058, Maharashtra; Tel: 91-22-22907586, 26211476; Fax: 91-22-26211476; sspindia@vsnl.net; <http://www.sspindia.org/Disaster.htm>

Following the 1994 earthquake in Maharashtra, implemented community-led reconstruction project empowering women and promoting access to microfinance and sustainable livelihood opportunities.

Post-Disaster Reconstruction Experiences in Andhra Pradesh in India

(from Shweta Tyagi, Intern)

Report; by Annie Jayaraj; Groupe de recherche IF-grif, University of Montreal, Canada <http://www.grif.umontreal.ca/pages/i-rec%20papers/annie.pdf>

Discusses the work of ATMA Consultancy Services post-disaster, including project by NASA "Post-Reconstruction Housing Programme for Empowering Untouchable Dalits & Marginalised Women".



Poverty Microfinance Community



Disaster Management Community

Consolidated Reply

Query: Microfinance through Urban Local Bodies for Disaster Preparedness and Poverty Alleviation – Experiences and Advice

Compiled by *Navin Anand* and *G. Padmanabhan*, Resource Persons and *Monika Khanna* and *Nupur Arora*, Research Associates

Issue Date: 26 August, 2008

From Awadhesh Pathak, City Managers' Association Gujarat, Ahmedabad

Posted 18 July, 2008

I work for City Managers' Association, Gujarat (CMAG) as Programme Manager, which is a pioneer organisation and started the movement to establish the city managers' associations across India. CMAG is a member based organisation and all municipal corporations, municipalities and urban development authorities are members of this association.

Poor in urban areas are facing number of problems related to basic necessities such as lack of shelter, clean air, clean water, proper toilets, electricity, proper nutrition and medical facilities etc. Housing for the poor is scarce and consequently slums are mushrooming everywhere, especially in unsafe locations which are relatively cheap and vulnerable to natural disasters.

In the recent past, urban microfinance is becoming important and necessary due to various reasons. The *2007 Revision of World Urbanisation Prospects* provides the official UN estimates and projections of the urban, rural and city populations of all countries in the world up to 2050. According to the report, today 30 percent of India's population is living in urban areas – slightly more than 300 million people. By

2050, 55 percent of India's population will be living in urban areas, amounting to 900 million people.

The 74th Constitutional Amendment has given a significant role to Urban Local Bodies (ULBs) in terms of empowerment and expanding their normal functions to include urban poverty alleviation. The poor are generally illiterate and do not have authenticated addresses as well as any collaterals to give as security. Urban poor primarily need microfinance services such as savings, credit (for consumption, housing and livelihood activities), insurance (for social security) and other remittance services.

There have been different initiatives in the area of urban microfinance wherein ULBs have played a role in providing financial and non-financial intermediary services. Taking up this background, I would like to request the members of the community to share their experiences and give suggestions on –

- Microfinance services for activities that can be taken up specifically for reducing vulnerabilities of urban poor to disasters.
- Linkage Models, structures and experiments undertaken by ULBs, linking with MFIs and

various other possible intermediaries for providing different microfinance services in urban areas.

- Innovative methods and microfinance products developed to provide services through ULBs.

Your experiences and suggestions will help us in formulating the strategies and structure for micro financing through ULBs, especially for disaster preparedness in Gujarat and other parts of the country.

Responses were received, with thanks, from

1. Sameer Kochhar, Skoch Development Foundation, Gurgaon
2. Shubham Singh, Srijan Infratech, Bangalore
3. V. Vivekanandan, South Indian Federation of Fishermen Societies (SIFFS), Trivandrum
4. Ravi Chandra, Bihar Development Trust, Bihar
5. Harish Chotani, Microfinance Consultant, Gurgaon (*Response 1; Response 2*)
6. Neerchal Balakrishnaraj, Grasim Industries Limited, Kumarapattanam
7. Naveeda Khatoon, National Institute of Public Cooperation and Child Development, Regional Centre, Bangalore
8. Jaipal Singh, Centre for Microfinance, Jaipur
9. Sebastian TV, Concern Worldwide India, Bhubaneswar
10. Sanjay Verma, PrimeNET Consulting Group, Lucknow
11. Sanjay Bhargava, Eko India Financial Services Private Limited, New Delhi
12. N. Jeyaseelan, Micro Finance Consultant, Madurai
13. Anindita Dey, Online Universal, Karnal
14. Sanjay Vincent, CARE, Ahmedabad
15. Baladeb Sen, Senior Consultant, Chennai
16. Ashok P. Ghule, GoI-UNDP Disaster Risk Management Programme, Thane
17. Rama Reddy, Indian Cooperative Union, Hyderabad

Further contributions are welcome!

Summary of Responses

Exploring the role of ULBs in providing financial and non-financial intermediary services, members discussed a range of issues including thrift/savings

as safety nets, working possibilities under BC model of RBI, urban microfinance models involving ULBs, and the utilisation of the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and Development of Women and Children in Urban Areas (DWCUA) schemes.

Overview of Issue

Respondents argued that Panchayati Raj Institutions (PRIs) and ULBs can play a vital role in promoting the Government's financial inclusion objectives, to give the urban poor greater access to a range of financial services. Specifically, they felt ULBs need to take up microfinance activities towards disaster preparedness as well as to address urban poverty alleviation, thus indirectly reducing vulnerability levels. ULBs while continuing their work on good governance and disaster preparedness can encourage microfinance and bring in NGOs and/or MFIs to provide microfinance services. Wherever necessary, ULBs can function as intermediaries of financial institutions. Respondents shared experience of a project covering Kankarbagh area of Patna, Bihar in order to strengthen this view.

Quoting the RBI Circular related to BCs, discussants felt ULBs could function as BCs by linking with banks to provide microfinance. This would help increase outreach, fulfill the 'know your customer' norms and enable the urban poor benefit from schemes like National Rural Employment Guarantee Act (NREGA) by facilitating the crediting of workers accounts. Working as BC will provide a new income avenue for local bodies. They also recommended amending the RBI Circular to include 'well functioning local bodies' as BCs, routing 500 crore technology absorption fund for micro-credit and 250 crore capacity building fund available under *Backward Regions Grant Fund (BRGF)* through Ministry of Panchayati Raj to kick start financial inclusion. Moreover, members suggested engaging ULBs to meaningfully utilise NABARD's funds available for microfinance and explore possible tie-ups with exiting BCs to adopt technology faster. ULBs could also collaborate with financial agencies to support SHG formation, economic development, capacity building and improved governance at grassroots.

Microfinance Services for Disaster Preparedness

Discussants mentioned that disasters affect the psycho-social status of people and therefore their chances of taking loans are meagre. They felt that microfinance activities can include a significant component of

asset insurance, but they also shared that it is not easy to implement, as most urban poor may not have proper title deeds and ownership. Members stressed on having 'calamity insurance products' for India and informed that a well-known society, in Kerala is currently negotiating with insurance companies on these products, which include a combination of fire, flood and earthquake insurances.

On the issue of disaster preparedness, members stressed that ULBs need to involve communities in the process of finding suitable relocation sites, and cited an example from Madurai where the ULBs under housing programmes, relocated the urban poor to new houses. Since many people lost their livelihoods as a result of the relocation, they were forced to return to their earlier locations. Discussants recommended multi-player collaboration, and participation of ULBs, MFIs and service and technology providing organisations in creating essential infrastructures, and for inventions and investments in urban areas. Members gave example of a well-known *national organisation* providing technology and services in sanitation. They also felt that ULBs could intervene in micro insurance and sale of financial products like mutual funds, as there are relatively low regulatory issues.

Models

Discussing the experiences with successful partnership models of local municipal corporations in urban micro financing place after financing respondents shared examples of a well functioning SHG federation in *Tirupati* and the Dhan Foundation's promoted federations in *Madurai and Vizag*. They also cited examples of ULBs in Kerala taking up microfinance and SHG movement in Alleppey. Another experience mentioned was the Pune Municipal Committee experiment with SHGs and SHG federations, which utilised community-based microfinance model.

Respondents felt that microfinance groups of poor and their federations could deliver, oversee and interface with municipal committees. Discussants identified involvement of the community right from the planning stage, and presence of 'visionary officers' as important factors for the success of ULBs models and strongly suggested for institutionalising the partnerships rather than being person dependent.

For urban slums, respondents identified high population density and better income generation opportunities by using micro-credit as major

advantages, low social cohesion, and peer pressure as disadvantages. They shared experience of Latin America where microfinance is essentially an urban activity and most MFIs prefer individual lending to poor, which leads to more transaction costs and greater need for direct monitoring.

Appreciating the effectiveness of SHG model in rural and urban areas, members suggested using microfinance for building up human, physical, financial and social capitals for better disaster preparedness. They mentioned that this can happen when microfinance is used for long term community empowerment process. They recommended availing of Cash Credit Limit (CCL) and basic loans from mainstream financial institutions and using same linkages to counter the issues of disaster and vulnerability by linking these sections with agencies dealing with disaster management.

Further, members noted that since ULBs are implementing microfinance programmes through the *SJSRY* and *DWCUA* schemes, they could conduct risk mapping of poor communities and promote withdraw-able savings in their SHGs as well. This could function as a mitigation measure. Respondents shared results of an urban poor household study across five cities in Rajasthan and listed low interest of formal institutions in small transactions, lack of confidence to enter intimidating buildings of banks or financial institutions, lack of identity proofs and Illiteracy etc. as reasons for exclusion of poor.

Pointing out that conventional relief and rehabilitation operations take time to institute, members recommended cash transfer as an alternative mode of emergency relief, because it is cost effective, quick and would meet the specific needs of the affected. They also shared "*Hyogo Framework for Action 2000-15 on Disaster Reduction*," which outlines the resource mobilisation criteria. Since for financing, ULBs depend largely on state Governments, respondents suggested creating a 'special fund' and encouraging corporations, enterprises, industrial houses, NGOs, funding agencies and Government to contribute. Members also felt that creating a 'citizen database' and computerising the information for public ease and planning could also help.

Creating Safety Nets through Thrift and Savings

Respondents felt post offices and banks could serve as important avenues for thrift and savings programmes and noted these could function as 'Safety Nets' for

natural and human made disasters, for using in business purposes and for building up a reputation score which can be used for getting housing loans.

For promoting savings, members felt that BC model is an excellent one with a hand held device, smart card and biometric recognition of the client. Members also quoted the example of Africa, in context of a system of withdrawal from the savings in emergencies.

Overall, respondents felt ULBs could play a catalytic role in facilitating the urban poor in building up tangible and intangible capital for better disaster preparedness and social security, and enable them to successfully take up livelihood activities through microfinance services.

Comparative Experiences

Tamil Nadu

Development of Women and Children in Urban Areas (DWCUA)

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

DWCUA, a scheme under SJSRY is extending support to urban poor women for setting up self employment ventures in a group by providing skill training, based on aptitude and local conditions. Under this scheme, Government of India and Government of Tamil Nadu have allotted a sum of Rs.34.39 towards developing poverty alleviation efforts. 77 groups have been formed benefiting 1,113 women.

Andhra Pradesh

(from Shubham Singh, SRIJAN Infratech, Bangalore)

SHG Federation partnering with Municipal Authorities, Tirupati

Sri Padmavathy Mahila Abyudaya Sangam (SPMS), a federation of SHGs was formed due to demand for access to credit from poor women involved in providing goods and services to pilgrims, domestic work, rag picking, garland making and unskilled labour work. With 100 percent of SPMS members living in the slums of Tirupati, SPMS collaborated with Tirupati Municipal Corporation so as to provide collective water connections to the members. It has a multiplier effect in the neighbouring areas.

SHG Federation Works with City Authorities, Madurai, Vizag

DHAN Foundation promoted SHG federations and partnered with local municipal corporations on slum

infrastructure through microfinance. Efforts were made to involve the community right from the planning stage of the intervention. Involvement of visionary officers in the local Municipal Corporation was pivotal in the creation of infrastructure. Management of the infrastructure was later given over to the community.

(from Monika Khanna, Research Associate)

Microfinance for Infrastructure Development

Municipal Corporation has taken an initiative to enable the ULBs to entrust basic functions of involving community contracts to women groups formed under SJSRY. Under this scheme, women groups are entrusted with the task of ensuring sanitation, solid waste management and hygiene. In return, they are paid an honorarium and are provided with subsidised loans from financial institutions for executing their tasks. Twenty six ULBs in A.P. have organised 74 women groups.

Kerala

Microfinance Services Provided at the “Doorstep” of Urban Cities

(from Monika Khanna, Research Associate)

The Government of Kerala has introduced “Kudumbashree”, a scheme of poverty alleviation through setting up of micro-credit and productive enterprises. Under this scheme, thrift and credit societies are set up at Neighbourhood level to facilitate the poor and to avail easy credits, which have now grown up to Informal Banks of the poor women at their doorsteps. It has been able to cover 58 urban towns with 10,687 thrift and credit societies.

Related Resources

Recommended Documentation

Hyogo Framework for Action (HFA) 2005-2015: Building the Resilience of Nations and Communities to Disasters

(from Anindita Dey, Online Universal, Karnal)

Report; by United Nations International Strategy for Disaster Reduction; Geneva; January 2005; Available at <http://www.unisdr.org/eng/hfa/hfa.htm>

Recommends developing partnerships to increase post-disaster reconstruction and rehabilitation financing through public and private partnerships.

RBI Master Circular on Priority Sector Lending

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Circular; by Reserve Bank of India; Mumbai; July 2006
Available at <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/71307.pdf>

Document gives instructions/directives to the banks with regard to operationalisation of the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) scheme.

Backward Regions Grant Fund (BRGF)

(from Sameer Kochhar, Skoch Development Foundation, Gurgaon)

Guidelines; by Ministry of Panchayati Raj available at <http://www.brgf.gov.in/Documents/BRGFFINALGUIDELINES.pdf>.

BRGF is designed to redress regional imbalances in development; gives the details on the objectives and operational procedures.

(from Monika Khanna, Research Associate)

UNCDF Strategy for Policy Impact and Replication in Local Governance and Microfinance

Article; by United Nations Capital Development Fund (UNCDF), 2002

Available at http://www.microfinancegateway.org/files/3510_file_03510.pdf

Sets out specific strategies for policy impact and replication in both local governance and microfinance, and examines the likely conditions of success.

A Self-Help Success Story

Article; by Surekha Sule; 12 March, 2005

Available at <http://www.indiatogether.org/2005/mar/wom-selfhelp.htm>

Discusses the success of SHGs formed by of Maharashtra under SJSRY.

Recommended Organisations and Programmes

Zero Mass Foundation (ZMF), Mumbai

(from Sameer Kochhar, Skoch Development Foundation, Gurgaon)

10-11, Shubhada B-Wing, Sir Pochkhanwala Road, Worli, Mumbai, Maharashtra; Tel: +91 22 6617.3888; Fax: +91 22 6617 3999 ; ceo@alittleworld.com
<http://www.alittleworld.com/htmls/zmf.html>

ZMF creates the last mile operations network in villages and has enabled many villages and rural areas overcome the menace of calamity, poverty and inequality.

(from Shubham Singh, Srijan Infratech, Bangalore)

Development of Humane Action (DHAN) Foundation, Madurai

18, Pillaiyar Koil Street, S.S. Colony, Madurai-625016, Tamil Nadu; Tel: 91-452-261-07-94/08-05; Fax: 91-452-260-22-47; dhan@md3.vsnl.net.in ; <http://www.dhan.org/aboutdhan/index.php>

Has worked with urban SHG federations, partnering local municipal authorities, and ADB in slum infrastructure management.

Shri Padmavathy Mahila Sangam (SPMS), Tirupati

D No. 6/-113, Near Leprosy Hospital, Akkarampalli, Tirupati, Andhra Pradesh; Tel: 0877 - 2283614

SPMS uses the services of the SHG Federations to contribute towards slum infrastructure and took active role in both creation of the infrastructure and later managing it.

South Indian Federation of Fishermen Societies (SIFFS), Trivandrum

(from V. Vivekanandan, Trivandrum)

Karamana, Trivandrum-695002, Kerala; Tel: 91-471-234-37-11, 234-31-78; Fax: 91-471-234-20-53; admin@siffs.org;

<http://www.siffs.org/Index.aspx?Page=./SiffsResponse/FisheryLivelihoods.aspx&tblName=Divservice&tblsubName=tblsubService>

Works for the protection and enhancement of livelihoods of fishing communities using appropriate technology and microfinance services, including disaster prone coastal areas.

Sulabh International Social Service Organisation, New Delhi

(from Harish Chotani, Microfinance Consultant, Gurgaon)

Sulabh Gram, Mahavir Enclave, Palam-Dabri Road, New Delhi-110045; Tel: 25031518, 25031519, 25057748, 25057749, 25032617; Fax: 25034014, 45521733 sulabh1@nde.vsnl.net.in; ; <http://www.sulabhinternational.org/>

Internationally acclaimed agency working on sanitation issues in India and can be partnered for providing sanitation facilities.

National Bank for Agriculture and Rural Development, Mumbai

(from Sameer Kochhar, Skoch Development Foundation, Gurgaon)

microCredit Innovations Department, Plot No. C-24, G Block, 2nd Floor, E Wing, Bandra Kurla Complex, P.B. No. 8121, Bandra (East), Mumbai-400051; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm>

Deals with matters in the field of credit for agriculture and other economic activities. It initiated a major credit delivery system linking SHGs to formal banks

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Swarna Jayanti Shahri Rozgar Yojna; Ministry of Urban Employment and Poverty Alleviation

Nirman Bhawan, Maulana Azad Road, New Delhi-110 011; Tel: 91-11- 23022199; Fax: 91-11-23061459; Website; <http://urbanindia.nic.in>

SJSRY seeks to provide gainful employment to the urban poor, unemployed or under-employed, through setting up of self-employment ventures or wage employment.

Recommended Upcoming Events

Ideating 3rd Generation Reforms, 5th Annual India @ Work Summit, New Delhi, 23rd to 28th October, 2008

(from Sameer Kochhar, Skoch Development Foundation, Gurgaon)

Sponsored by Skoch Development Foundation, Gurgaon, Haryana. Contact: info@skoch.org

Discussion underlying the theme of "Ideating 3rd Generation Reforms" will include issue of microfinance through ULBs for Disaster Preparedness and Poverty Alleviation.

3



Microfinance Initiatives for Inclusion

Synthesis Paper 3

The emphasis placed on “faster, more broad-based and inclusive growth” in the Eleventh Five Year Plan of Government of India¹ is an acknowledgment that a considerable population of the country has been excluded from the benefits of poverty reduction and human development programmes. The Solution Exchange, Microfinance Community addressed many of these concerns over the past year, which has provided valuable insights towards enhancing the current policy and programme environment in Microfinance.

The Microfinance Community is concerned that almost 73 percent of India’s population does not have access to financial services, despite the existence of more than 40,000 branches of commercial, regional and rural banks. **Geographical remoteness** and insufficient infrastructure development, especially in mountainous areas and other rural locations, were two factors highlighted in contributing to low penetration and high transaction costs in delivering financial services. Often, such underserved regions are also characterised by environmental fragility, thus further increasing the vulnerability of local populations. These regions need specific services and products to hedge their risk against natural disasters (i.e. improvement of remittance facilities, micro insurance, accessing micro-credit and revolving funds for livelihood promotion).

Recognising these needs, the Reserve Bank of India (RBI) has recently issued circulars on “Business Facilitator” and “Business Correspondent²” models to enable banks to improve outreach through innovative delivery mechanisms. Under these models, Panchayats, Post offices, NGOs, and other organisations are now allowed to function under these structures. Additionally, various national committees³ have identified the crucial role of a robust cooperative structure in enhancing financial inclusion to remote areas. Solution Exchange members endorsed this approach, and stressed the need to strengthen Primary

Agriculture Cooperative Societies (PACS), citing the success that NABARD’s programme on supporting Self Help Groups (SHGs) had in parts of India (e.g. in Bihar, Karnataka). Members also suggested that a specific policy allowing MFIs (or other service providers) to provide remittance facilities to remote areas was needed urgently.

Community members cited Information and Communication Technology (ICT) as a tool to alleviate the constraints inhibiting inclusion and noted the use of Biometric Smart Cards in the discussions on Microfinance for mountainous and remote areas. RBI’s enhanced draft financial sector technology vision document ratifies this approach and underlines the importance of using ICT for enhancing operations and customer service of the central bank/commercial banks. Similarly, participants pointed out that the rapid growth of mobile phone networks could be used to strengthen outreach of financial services for remote communities. It was suggested a broad range of applications for mobile banking would be required, including mobile payments, deposits, savings to money transfers, and remittances.

The group referenced both national and international models of use of mobile technology for similar target groups (e.g. fishermen community) in this context. However, the group cautioned that constraints related to capability (e.g. literacy, technology comfort, etc.) and regulatory frameworks would have to be addressed before mobile banking could be extended for widespread inclusion of the disadvantaged. Therefore, RBI’s recent operative guidelines on mobile-banking transactions are a welcome step, which were based on inputs from various stakeholders including Solution Exchange.

Inclusion of urban poor and the increasingly urbanising face of poverty in India is another contemporary reality community members discussed last year. They

¹ Planning Commission, GoI, Toward Faster and Inclusive Growth – An approach to Eleventh Five Year Plan, December 2006

² Reserve Bank of India, Financial Inclusion by Extension of Banking Services – Use of Business Facilitators and Correspondents (RBI Circular), 25 January, 2006

³ Reserve Bank of India, Task Force on Revival of Cooperative Credit Structure (Dr. Vaidyanathan Committee Report), Jan 2005

stressed the need to develop Microfinance products and services for the specific needs of urban poor such as the need for immediate and larger size loans, and the need to link the same to other urgent needs of urban poor such as education, health, livelihoods and improving working and living conditions. The community hoped that these suggestions would inform the recent efforts of urban poverty alleviation programmes (such as Swarna Jayanti Shahari Rozgar Yojana, Prime Minister Rozgar Yojana and Jawaharlal Nehru National Urban Renewal Mission), as well as efforts by various NGOs and MFIs.

The inclusion of Muslims in mainstream microfinance was a subject of intense discussion by the Community, due to the prohibition of charging interest in Sharia law. The group developed a myriad of interesting, compatible models, ranging from profit sharing mechanisms with clients as well as optional MFI-service charges for the “cost of money”. Additionally, SHGs and MFIs could also donate interest earned to meet legal restrictions.

The group also debated how excluded regions, such as the Northeast, could be provided microfinance services and products. They agreed on the urgent need to address geographical diversity of such disadvantaged regions and developing viable livelihood options.

The report of the Committee on Financial Sector Plan for North Eastern Region illustrates potential action plans. It recommends that NABARD could provide assistance under its revolving /microfinance fund to NGOs to form SHGs/JLGs and infrastructure facilities to reach communities in such regions. Members underlined the need for a proactive role by banks, the government, and the RBI to provide a robust regulatory and functional environment for adopting and replicating technological innovations.

Based on the aforementioned discussions, the Solution Exchange Microfinance Community will focus on a number of urgent issues on inclusion in the coming year. A Microfinance Bill to foster greater inclusion of the most disadvantaged sections is an immediate priority. Second, networks of institutions such as Panchayats, Post offices and PACS need to be nurtured into becoming financial intermediaries so that marginalised communities and regions can be better reached. Finally, technological innovations (within broad RBI mobile banking guidelines) need to be adapted for reaching the unserved and underserved. The Community hopes that further dialogue and debate towards the creation of a greater range of microfinance products and services will help facilitate greater inclusion of excluded populations and regions of the country.

I.
Coverage of Microfinance in Geographic Context



Consolidated Reply

Query: Expansion of Microfinance to Northeast India – Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate

Issue Date: 28 March, 2007

From Suvarna Gandham, Maanveeya Holdings and Investment (P) Ltd, Hyderabad

Posted 13 March, 2007

I work with Maanveeya Holdings and Investment (P) Ltd, which is an Indian subsidiary of Oikocredit, a global development financing institution, responds to the needs of the businesses that create jobs and income for disadvantaged people in developing countries like India. The financial products offered by Maanveeya are bulk loans to MFIs, loans for development projects that benefit the poor, (Guarantees and Equity participation in specific cases). For further details, please read at the link http://www.oikocredit.org/documents/India_Leaflet.pdf. In India, we have provided long-term loans to more than 20 MFIs based in various parts of India.

We are trying to understand the best ways to promote microfinance industry in northeast India, as microfinance services have partially reached in the hilly region. I will be grateful if the community members can enlighten us about:

- Prevalence of MFIs in the northeastern region of India
- How viable it is to do business in such region presuming dependency of the area on government subsidies.
- Experiences on prevailing repayment culture of the region.

Your suggestions on the above would help us develop a sound and workable business strategy for the region.

Responses were received, with thanks, from

1. N. Jeyaseelan, Indian Bank, Madurai
2. Anant Jayant Natu, ICICI Ban-Social Initiatives Group, Chennai
3. Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai (Response 1; Response 2; Response 3; Response 4)
4. Digambar Narzary, Nedan Foundation, Banganshali, Assam
5. Rajendra Kumar Gupta, Manab Sewa Sangha, Guwahati
6. Mathew Sangma, ACCION International, Chennai
7. Sachin Kumar, UNDP, New Delhi
8. Pradip Kumar Sarmah, Centre for Rural Development, Noida

Further contributions are welcome!

Summary of Responses

The query on ways to 'expand microfinance services to northeast India' got instances of MFIs operating in the northeast and status of SHG Bank Linkage Programme (SBLP) in that area. Members shared diverse experiences on the potential and approach of microfinance in the northeast, institutional models currently used, the region's socio-cultural context, challenges to the growth of microfinance, and key points for expansion of microfinance in the region.

Highlighting sector reports listing microfinance service providers in the northeast, participants noted the progress of microfinance service delivery to date under the SBLP and the presence of NGO-MFIs in the region. The data showed the number of SHGs linked under SBLP went up by more than 80 percent between March 2005-2006 and that there was an almost 62 percent increase in the number of loans disbursed during the period. Additionally, several NGO-MFIs are operating in Assam and Manipur. Members also shared the case of an MFI in West Bengal, which has expanded its credit operations to several states of the northeast. While noting these organisations, respondents felt there is tremendous scope for scaling-up microfinance in the northeast.

On the existing microfinance and institutional models in the northeast, discussants pointed out that the SHG model is the predominant one in the region. Since this model requires a long gestation period (time from the group formation to loan disbursement) and huge costs, members felt there is a need to test alternate models. Moreover, based on the field studies shared, credit use is less for consumption purposes, showing that the poor need loans for income generating activities rather than consumption. Hence, participants felt the Joint Liability Group (JLG) model with a low gestation period would be more appropriate for scaling up microfinance operations in the northeast, because it could meet the larger loans needed for productive use.

Sharing views on the institutional capacity to deliver microfinance services in the region, members commented on the diverse nature of civil society organisations present in the region such as youth clubs and missionaries, which have (over time) moved into the social sector and are working as Self-Help Promoting Institutions (SHPI). However, few of these social institutions, have entered the microfinance business.

Discussing the socio-cultural environment in the northeast, respondents highlighted the diversity of people, culture, flora, fauna and topography in the region, and thus suggested using different approaches in different areas. They advised identifying suitable institutional structures and building innovative service delivery models and products based on the specificities of the region (e.g. in one place, retailing by a bank may work better, while, in another place, a producer cooperative may be more suitable).

Looking at the differences in the socio-cultural and political conditions, and infrastructure provisions, members mentioned the following challenges to the growth of microfinance in the northeast:

- Absence of an enabling environment, social investments and proper infrastructure
- Perceived security problem in the region
- Lack of appropriate institutional structures
- Shortage of professionals with financial and social educational background
- High subsidy dependence on government aid
- Lack of inter-clan affinity.

In spite of the above mentioned limiting factors, members felt there are huge opportunities for scaling up microfinance services in the region. They suggested the following key points for scaling up microfinance:

- Finding appropriate institutional structures and creating innovative microfinance models and products.
- Strengthening livelihoods through innovative approaches like contract farming and warehouse receipts.
- Training and capacity building for MFIs in developing systems and process for effective delivery of microfinance services.
- Making sound strategic business plans for better management of microfinance operations.

Respondents stressed that scaling-up microfinance in the northeast must include livelihoods financing. Looking at the large number of low income people depending on agriculture and allied activities for their livelihoods, respondents apprehended that the scope of consumption financing is less likely and may not be a desirable strategy. Thus, they felt there is a window of opportunity for MFIs to get into livelihood financing, through public-private-partnership including banks. Respondents also mentioned other potential areas for livelihood financing in the northeast, such as in rubber and spices; post-harvest management; Jatropha/bio-diesel, floriculture, medicinal and aromatic plants; warehouse financing; contract farming; and cash flow based financing.

Moreover, on government subsidies in the region, members looked at its importance from the beneficiaries' viewpoint. They felt subsidies involve a high transaction cost as well as opportunity cost for beneficiaries. The cost incurred (in terms of travel, loss of wage labour, etc.) to get the subsidy outweighs the monetary value of subsidy itself. Hence, the participants contended

that the poor would prefer market loans to subsidy, provided the MFIs deliver hassle-free loans and quicker repeat loans. Additionally, respondents felt the poor living in the remote areas, would positively respond to microfinance services, since they often feel “by-passed” by government programmes.

Finally, responding to the question on “loan repayment culture” in the northeast, participants argued recovery would not be an issue, provided organisations prepare a proper strategic plan, identifying potential borrowers as well as manage credit operations effectively.

In conclusion, members felt there is great potential for expanding microfinance to the northeast, provided innovative microfinance models and different institutional structures are used to deliver microfinance services that keep in mind the challenges in each state.

Comparative Experiences

Assam

Rickshaw Bank for the Migrant Rural and Urban Poor

(from Pradip Kumar Sarmah, Centre for Rural Development, Noida)

The Centre for Rural Development, under its Rickshaw Bank project started in 2004, provides asset-based loans to the rickshaw pullers. Full, timely (daily) repayment leads to ownership of the rickshaw for the puller. The project also gives the puller and his family social security in terms of a member deposit, accident insurance, a uniform, license, a photo identity card, and related training.

Foundation Promoting Alternate Livelihoods Opportunities in Handloom Sector

(from Digambar Narzary, Nedan Foundation, Banganshali, Assam)

Nedan Foundation is an NGO working in the villages of the northeast particularly in the Bodoland Territorial Council dominated by Bodos community. It is trying to strengthen existing livelihoods opportunities in this region through forming groups of weavers in Kokrajhar district. Presently, it is working with 65 home-based weavers and three cluster-based weaving centres. With resources and time at disposal, a weaver is able to earn up to Rs. 1,800-2,000 per month.

NGO Providing Microfinance Services in the Northeast

(from Rajendra Kumar Gupta, Manab Sewa Sangha, Guwahati)

Manab Sewa Sangha, a development organisation involved in microfinance activities, is presently working in three districts of Assam—Kamrup, Nalkathi and Barpeta. Following the “group methodology,” it is organising poor women into SHGs and JLGs. As of March 2006, it had 585 loan clients with a Rs. 8.50 lakh gross loan portfolio.

Manipur

NGO Promoting Urban and Rural Microfinance

(from Sachin Kumar, UNDP, New Delhi)

Youth Volunteers Union is providing microfinance services to rural and urban poor in the six districts. Presently, it is working with 189 SHGs. It has 4,100 borrowers with a loan portfolio of Rs. 3.9 crore. In this coming financial year, it plans to expand microfinance operations in urban areas of Guwahati district in Assam.

Tamil Nadu

IFAD Project Building Foundation for Growth of Microfinance

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai; response 3)

The International Fund for Agricultural Development, a specialised UN agency, ran an eight-year Women’s Development project (January 1990–December 1998). The project was implemented in six districts with the poor women as target group. More than 87,000 women received institutional credit worth Rs. 753 million with a recovery rate of more than 80 percent. Loans taken for income generating activities accounted for more than 75 percent of the total loans.

Multiple States

Fastest Growing MFI Expanding in Northeast India

(from Sachin Kumar, Research Associate)

Bandhan is an MFI working with the poor women through community participation initiatives. Presently, it is working in 29 districts of five states. As of February 2007, it has more than four lakhs active borrowers with Rs. 1168 million outstanding loans. After looking at the demand potential of microfinance in northeast, it has now expanded its operations to Tripura. Presently, it has more than 13,000 active borrowers with Rs. 41.17 million outstanding loans.

Related Resources

Recommended Organisations

(from N. Jeyaseelan, Indian Bank, Madurai and Anant Jayant Natu, ICICI Bank-Social Initiatives Group, Chennai)

Rashtriya Gramin Vikas Nidhi, Guwahati

Bye Lane No. 8, Rajgarh Road, Guwahati-781003, Assam; Tel.: 91-361-2452320/2528652; Fax: 91-361-2528523; info@rgvnindia.org; <http://www.rgvnindia.org/support.htm>

Non-profit organisation providing financial and capacity building support to NGO-MFIs especially in northeast and eastern India for expansion of microfinance.

National Bank for Agriculture and Rural Development, Mumbai

Plot No. C-24, "G" Block, 2nd Floor, "E" Wing, Bandra-Kurla Complex, P.B. No. 8121, Bandra (East), Mumbai-400051; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm> (site not fully constructed)

Under SBLP, provides re-financing and technical assistance to banks and NGOs involved in SHG promotion and lending, also from northeast India.

(from Anant Jayant Natu, ICICI Bank-Social Initiatives Group, Chennai)

International Fund for Agricultural Development (IFAD), Italy

Via del Serafico, 10700142 Rome, Italy; Tel.: 39-0654592294; Fax: 39-0654593294; <http://www.ifad.org/english/operations/pi/ind/projects.htm>

Specialised agency of United Nations providing funding support to Government of India and NGOs for promotion of microfinance and livelihoods programmes in the northeast.

North Eastern Region Community Resource Management Project for Upland Areas, Shillong

Sympli Building, First Floor, Near Law College, Malki-Dhankheti, Shillong-793001, Meghalaya; Tel: 91-364-2500494/95/96; Fax: 91-364-250-0027; info@necorps.org; <http://www.necorps.org/about.htm>

Joint project of IFAD and Government of India, to improve the livelihoods of vulnerable people in the northeast region through building SHGs and Natural Resource Management Groups.

Industrial Credit and Investment Centre of India (ICICI) Bank, Mumbai

ICICI Bank Towers, Bandra-Kurla Complex, Mumbai-

400051, Tel: 91-22-26536425; Fax: 91-22-26531233; <http://www.icicibank.com>

Bank is providing market loans and capacity building support to NGO-MFIs from North-east India and is developing a strategy to expand operations there.

Small Industries Development Bank of India (SIDBI), Lucknow

SIDBI Tower, 15, Ashok Marg, Lucknow-226001, Tel: 91-522-2288547/8/9/50; sfmclho@sidbi.com; <http://www.sidbi.in/Micro/index.htm>

SIDBI Foundation for Micro Credit (SFMC) provides bulk loans and technical support to MFIs in the northeast region of India.

Nedan Foundation, Kokrajhar

(from Digambar Narzary)

P. B. No. 8, Kokrajhar, Bodoland Territorial Council (BTC) Assam-783370, Tel.: 91-94350-27087; nedan_ne@yahoo.com; <http://www.nedan.in/reports/Creating%20livelihood.doc>

Working in the northeast region particularly at Bodo Territorial Council for alternative livelihoods promotion in weaving sector and helping weavers to get loans from MFIs.

Centre for Rural Development, Noida

(from Pradip Kumar Sarmah and Sachin Kumar, UNDP, New Delhi)

F-83 (1st Floor), Sector-27, Noida, Uttar Pradesh; Mobile: 09818863727; crd4ev@yahoo.com; <http://www.crdev.org/act.asp>

Under its Rickshaw Bank project in Northeast India, the NGO has been able to promote microfinance for the benefit of migrant rural and urban poor.

Manab Sewa Sangha, Guwahati

(from Rajendra Kumar Gupta)

Village and Post: Amgaon, District: Kamrup, Guwahati-781026, Assam; Tel: 91-361-2547225; rajghy@yahoo.co.in

NGO working in the districts of northeast India, providing microfinance services to the poor organised into groups.

Youth Volunteers Union, Manipur

(from Sachin Kumar, UNDP, New Delhi)

Waiview Bhavan, Wangmataba, Thoubal-795138, Manipur; Tel: 91-3848-222224/514; [Microfinance for Inclusion](mailto:imp_</p></div><div data-bbox=)

tikendra@sancharnet.in

Microfinance organisation imparting microfinance services to the poor based in northeast India.

Agricultural and Processed Food Products Export Development Authority, New Delhi

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai; response 4)

Ministry of Commerce, Government of India, NCUI Building, 3, Siri Institutional Area, August Kranti Marg, New Delhi-110016, Tel: 91-11-26513204/4572; Fax: 91-11-26526187; headq@apeda.com; <http://www.apeda.com>

Develops agricultural commodities and promotes their exports in the northeast region with financial assistance for market, infrastructure and quality development.

Maanveeya Holdings and Investment Private Limited, Hyderabad

(from Suvarna Gandham)

Plot 47, Navanirmannagar, Jubilee Hills Rd. 71, Hyderabad-50033, Tel: 91-40-23554729; Fax: 91-40-23554729; office.in@oikocredit.org; http://www.oikocredit.org/documents/India_Leaflet.pdf

Indian subsidiary of Oikocredit (a global development financing institution) which is a wholesaler in microfinance sector, exploring opportunities for microfinance expansion in northeast India.

From Sachin Kumar, Research Associate

Bandhan, Kolkata

AB-48, Sector-1, Salt Lake City, Kolkata-700064, West Bengal; Tel: 91-33-23347602; Fax: 91-33-2334613; info@bandhanmf.com; <http://www.bandhanmf.com/News.asp?pi=&pg=5>

One of the largest MFIs in eastern India, expanded its microfinance operations in northeast India as well.

North Eastern Development Finance Corporation Limited, New Delhi

C-172, Ground Floor, Sarvodaya Enclave, New Delhi-110017, Fax: 91-11-26533824; Tel: 9312650558; http://www.nedfi.com/micro_finance.htm

Providing financial support to MFIs based in northeast India for the development of animal husbandry, agri-horticulture plantation, medicinal plantation and micro insurance.

Recommended Documentation

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai (response 3))

Life at the Bottom of Pyramid

Ramesh S. Arunachalam, et al; 2007 (will be published soon)

To avail of a copy contact Ramesh Arunachalam
Book covers the challenges in Indian microfinance sector and ways to tackle them, including issues of scaling up microfinance in the northeast region of India.

Agriculture and Allied Workers in India, Based on Census 2001

Census of India; 2001

<http://www.solutionexchange-un.net.in/mf/cr/res13030702.doc>

Data captures the status of rural and urban workers from the northeast states engaged in agriculture and agri-allied activities in comparison to all-India level.

Evaluation Report of Tamil Nadu Women's Development Project

International Fund for Agricultural Development; 1999

http://www.ifad.org/evaluation/public_html/eksyst/doc/prj/region/pi/india/r240ince.htm

Final evaluation report highlighting impact of the project (based on women's development through microfinance) and the lessons learnt during the project period.

Report of the Committee on Financial Sector Plan for North Eastern Region

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai; response 2)

Reserve Bank of India; July 2006

<http://www.solutionexchange-un.net.in/mf/cr/res13030701.pdf>

Report suggests expanding the bank outreach, simplification of procedure for opening bank accounts and revised human resource incentives in the northeast India.

North-East Meet Readies Roadmap for Development

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai; response 4)

By G. Srinivasan; Hindu Businessline; March 20, 2007

<http://www.thehindubusinessline.com/2007/03/20/stories/2007032000730700.htm>

Article highlighting the initiative of public-private partnership in strengthening the livelihoods opportunities in the northeast region.

Side-by-Side: A Slice of Microfinance Operations in India

(from Pravin Kumar, Sa-Dhan, New Delhi)

Sa-Dhan, New Delhi; 2007

<http://www.sa-dhan.net/inner1.aspx?ResourceCentre.htm>

Report gives an overview of growth and development of microfinance operations across India, including a list of organisations providing microfinance services in the northeast region.

Recommended Portal and Information Base MFIs List Selected for Final Round of Microfinance Process Excellence Award

(from Sachin Kumar, UNDP, New Delhi)

<http://www.mpea.info/stage3.htm#list>

List containing the names of MFIs selected from the northeast region of India in the final round of the Microfinance Process Excellence Award (MPEA).



Consolidated Reply

Query: Microfinance Services for Mountain and Other Remote Areas – Experiences; Advice

Compiled by Navin Anand, Resource Person and Nupur Bahl, Research Associate

Issue Date: 2 July, 2008

From N. Srinivasan, Lead Author of the 'State of Sector Report – 2008', Pune

Posted 12 June, 2008

Dr. Rangarajan committee report on financial inclusion (January 2008) says:

“In countries with a large rural population like India, financial exclusion has a geographic dimension as well. Inaccessibility, distances and lack of proper infrastructure hinder financial inclusion. Vast majorities of population living in rural areas of the country have serious issues in accessing formal financial services.”

This holds true not only in case of mountain states like Uttarakhand and Jammu & Kashmir but also for states like Rajasthan, Madhya Pradesh and Bihar having a large spread of geographical area. The existing network of banks and other microfinance services in these states fulfills only a very limited proportion of micro financial needs such as savings, credit, insurance and transfer of money (remittances, Government assistance etc.). For instance, a report of the Integrated Cooperative Development Project, Nainital points out that only a few districts in Uttarakhand have bank branches at a distance of less than 15 km away from the villages. Because of low proximity levels, the transaction cost due to transportation expenses becomes very high. On the other hand, in districts like Pithoragarh, which have a very high number of war widows, there is an urgent need for suitable mechanisms for these women-headed households to access remittance services.

Similar situations are seen in a number of other mountain states also.

The above shows that in mountain and remote regions of India, innovative systems for microfinance are urgently required to provide services to the rural poor to enhance financial inclusion and also to reduce the cost of transaction for the people.

Considering the importance of this issue, I would like to include innovations and experiences on microfinance services in mountain and remote areas in the State of the Microfinance Sector Report 2008. I therefore request members of the microfinance community to share documents (case studies, reports, etc.), views and ideas on:

- Specific gaps in existing microfinance services for mountain and remote areas which require immediate solutions.
- Innovative strategies, mechanisms, products, and services technologies that need to be or have been experimented to provide microfinance for mountain and remote areas.

The inputs received from the members will enrich the quality of the State of the Sector Report and will facilitate more focused planning and strategy for microfinance in mountain and remote areas. All information shared by community members used in the report would be duly acknowledged.

Responses were received, with thanks, from

1. Kris Dev, Life Line to Business (LL2B), Chennai
2. Rohit Raina, ICICI Bank, Mumbai
3. Manab Chakraborty, Mimo Finance, Dehradun
4. Prasanta Das, National Bank For Agriculture and Rural Development Bank (NABARD), Dehradun
5. Abhinandan Saikia, United Nations Development Programme (UNDP) Consultant, New Delhi
6. R. K. Mukherjee, ACCESS Development Services, New Delhi
7. Sanjay Verma, PrimeNET Consulting Group, Lucknow
8. Shivendra Sharma, Plural India, Gurgaon*
9. Pawan Kumar, Uttarakhand Livelihood Improvement Project for The Himalyas (ULIPH), Dehradun*
10. A. P. Dubey, Institute of Cooperative Management, Dehradun*
11. Mallika Kumar, Shriram College of Commerce, University of Delhi, New Delhi*

*Offline Contribution

Further contributions are welcome!

Summary of Responses

Mountain economies are highly heterogeneous, with varying micro-climatic conditions, topography, and ethnic composition of local communities. Responding to the query on microfinance in mountain and remote areas, discussants highlighted various constraints and advantages, enumerated specific microfinance needs of people in these areas, shared experiences, and recommended strategies for delivering microfinance services in remote regions.

Major constraints identified by members in providing microfinance in mountain and remote areas, included: scattered populations, lack of NGOs, unemployment and under employment. Poverty, they noted is most acute among artisans, marginal farmers and nomads. Respondents also pointed out that mountains are ecologically fragile and prone to natural disasters, such as earthquakes, hailstorms, cloudbursts, landslides, flash floods and forest fires. Given these issues, need-based risk hedging mechanisms and insurance products need to be customised as per local needs.

Discussants highlighted practical difficulties when providing microfinance services in far-fetched areas.

Physical transportation of money for disbursement as loans and repayment, takes time, which adds to the transaction cost. Strong community bond among people and relatively high literacy rate are two key advantage areas, identified by members in context of financial inclusion.

Deliberating on “money order economy” prevailing in mountain states, members informed that a large number of families depend on remittances; some kept money in post offices and more commonly kept cash within the homestead. Respondents suggested adopting “smart and affordable ways” for delivering remittances and savings services, such as facilitating the development of joint accounts between sender and receiver (provided banks’ branches are approachable). They added that if RBI permits microfinance institutions (MFIs) to undertake remittance facilities in remote areas then communities would have access to reliable, affordable money transfer facilities at their doorsteps. Along with remittance facilities, they enumerated other microfinance services for communities living in mountain and remote areas need, which included:

- Facilities for parking small savings
- Access to small credit, for livelihood activities, emergencies, house repairs, rehabilitation after natural calamities, etc.
- Micro Insurance packages at affordable rates.

Discussants shared a number of experiences of microfinance in remote areas. In Nagaland (and other northeastern states), ‘Jhum’ is a popular socio-economic system, with 85 percent of the state’s population using this system and more than 90 percent are dependent on agriculture. To help farmers in the state, Nagaland Empowerment of People through Economic Development (NEPED), an autonomous body introduced microfinance services through ‘Village Banks’. The initiative used a bottom-up, participatory approach, and a decentralised management system to implement the project through Village Councils/Village Development Board. It created a micro-credit revolving fund, which has changed the cropping system.

Members also mentioned a mobile bank services model that provided services through mini-banks of Primary Agriculture Cooperative Societies (PACS) under the Integrated Cooperative Development Project (ICDP) in Uttarakhand. The model is based on the approach used by SEWA Bank in Gujarat and the “one-man one-bank” concept of mobile banking in Pakistan.

In addition, respondents recommended several strategies for providing microfinance services. They suggested MFIs adopt the Business Correspondent model recommended by the Dr. Rangarajan Committee with PACS and other primary cooperatives serving as “correspondents” for banks.

Mentioning the details of a recent survey, members informed that the cooperative banks in hilly states have surplus deposits, which are to be utilised and invested to its best.

Additionally, discussants suggested when offering credit and other microfinance services that MFIs need to use a cluster-based approach to extend outreach and volume. They also felt it is essential to converge and coordinate the efforts of all stakeholders in the sector, including government departments, banks and other development agencies. For example, members mentioned the framework used by the IFAD funded “Livelihoods Improvement Project for the Himalayas” in Uttarakhand, which clearly identifies the roles and responsibilities of stakeholders and expected outputs, and outlines the processes intended to enhance the coverage of SBLP.

Mentioning the Janashree Bima Yojna scheme, respondents suggested conducting publicity campaign to ensure compulsory coverage of SHG members by banks. They also advised the GoI, NABARD and RBI monitor more closely its progress.

Finally, discussants recommended initiatives for enhancing financial inclusion in mountain and remote areas:

- Adopt biometric technology and involve grocery shops for disbursement of microfinance services (i.e. like pilot for the National Rural Employment Guarantee Programme (NREGP) by the Government of Bihar).
- Create a pool of skilled people to provide microfinance services in the hilly areas and create conditions that make the markets work.
- Promote BC model, by sharing or subsidising fees payable to banks and post offices through a financial inclusion promotion fund supported by either the Government or NABARD (i.e. in Maharashtra where post offices are providing microfinance).
- Build a cadre of grassroots leaders to work in the areas where no NGOs are available to engage in

microfinance and livelihood activities.

- Set up RUDSETI type institutions in hilly districts to provide skill training to rural youth, to enable them to take up employment in agriculture, agriculture-allied and non-farm sectors.
- Promote greater coordination/convergence with Corporate Social Responsibility (CSR) activities to cover microfinance NABARD can play a key role by collecting data, coordinating and facilitating collaboration, along with other partners, such as SIDBI, RMK and other Government bodies.
- Utilise army installations as civil society institutions–Self-Help Promotion Institutions facilitating microfinance activities and helping market SHGs’ products, or as BCs to banks for microfinance delivery
- Encourage NABARD to relax its condition of minimum size of SHG from ten to five in hilly areas and increase support for SHG formation from Rs. 3,000 to Rs. 4/5,000, especially in northeastern region.
- Use volunteers such as retired teachers, Government employees and Anganwadi workers to undertake awareness campaigns on available banking services, through media, local newspapers, road shows, street plays and audio-visuals.

Overall, members stressed the importance of creating livelihood options in mountain areas and listed a variety of income generating activities suitable for hills, which would require microfinance support. In the nutshell, members come out with broad strategies for promoting microfinance in mountain and remote areas of different states of country.

Comparative Experiences

Nagaland

Harnessing Microfinance for Sustainable Jhum Production

(from Abhinandan Saikia, UNDP Consultant, New Delhi)

Around 85 percent of Nagaland’s population practices Jhum agriculture. Reduction in the fallow cycle in recent years has resulted in severe land degradation and crop failures. Nagaland Empowerment of People through Economic Development (NEPED) has established a micro-credit system in villages in the form of revolving fund (RF). The RF has helped change the cropping system from subsistence farming to

*Offline Contribution

cash crop, resulting in improvements in the income of individuals and for the village as whole.

Bihar and Andhra Pradesh

Biometric Smart Cards for e-Governance

(from Kris Dev, Life Line to Business (LL2B), Chennai)

Pan cards, ration cards, driving licenses, and voter ID cards do not serve as foolproof method of identification of citizens. According to estimates, around 15 lakh of the 4 crore PAN cards issued are duplicated. Biometric Smart Cards have recently been introduced. These cards could be used as voter ID cards, to track income, expenditure, insurance & PDS benefits. They have been tested in small villages in Bihar and Andhra Pradesh and have been efficient.

Related Resources

Recommended Documentation

(from Shivendra Sharma, Plural India, Gurgaon)

Draft Operating Guidelines for Mobile Payments in India – RBI

Guidelines; Reserve Bank of India; New Delhi; June 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr/res12060801.pdf>

Provides framework for “mobile payments,” information exchange between a bank and its customers for financial transactions through the use of mobile phones in isolated areas in India.

The M-Pesa Payment Platform, FDCF Project

Power point Presentation; by Nick Hughes; Vodafone; November 2005

Available at <http://www.solutionexchange-un.net.in/mf/cr/res12060802.ppt>

Describes the Vodafone Safaricom Project in Kenya (M-PESA) which uses cashless transfers to provide financial services in isolated areas, such as mountain regions.

Framework for Increasing SHG-Bank Linkages in Project Villages

(from Pawan Kumar, Uttarakhand Livelihood Improvement Project for The Himalayas (ULIPH), Dehradun)

Framework; Livelihoods Improvement Project for the Himalayas in Uttarakhand; IFAD

Available at <http://www.solutionexchange-un.net.in/mf/cr/res12060803.doc>

Provides a framework including activities, time

frame, role of NGOs, role of project and outcome for increasing SHG - Bank Linkages in mountain villages.

Report of The Committee on Financial Inclusion

(from A. P. Dubey, Institute of Cooperative Management, Dehradun)

Report; by Mr. C. Rangarajan; National Bank for Agriculture and Rural Development NABARD; Mumbai; January 2008

Available at http://www.nabard.org/pdf/report_financial/Full%20Report.pdf

Makes recommendations on ensuring financial inclusion to empower vulnerable groups by providing credit and savings services, and insurance and remittance facilities.

ID Cards Get Smarter – Life Line to Citizens (LL2C)

(from Kris Dev, Life Line to Business (LL2B), Chennai)

Article; by Geetanjali Krishna, Life Line to Citizens (LL2C); June 2008

Available at <http://ll2b.blogspot.com/>

Elucidates the use of Biometric Smart Cards for all that can be used to track income, expenditure, insurance, and PDS benefits in the isolated areas, including mountain regions.

Microfinance for Mountain Communities

(from Navin Anand, Resource Person)

Report; Planet Finance; Second Global Meeting of the Mountain Partnership; Cusco, Peru; 28-29 October, 2004

Available at <http://www.mountainpartnership.org/files/pdf/PlanetFinance.pdf>

Discusses various challenges in delivering microfinance services to mountain communities and describes work done by Planet Finance, which aims to alleviate poverty through microfinance.

Mobile Phone Banking and Low Income Customers

(from Nupur Bahl, Research Associate)

Paper; by Gautam Ivatury and Mark Pickens; CGAP, United Nations Foundation and Vodafone Group Foundation

Available at <http://www.cgap.org/publications/mobilephonebanking.pdf>

Records use of mobile phones for low income consumers in South Africa; examines the work of WIZZIT, a start-up mobile banking provider,

reaching out to “unreached” customers in remote areas.

Recommended Organisations and Programmes

(from Manab Chakraborty, Mimeo Finance, Dehradun)

Himalayan Action Research Centre, Dehradun

744, Indira Nagar, Phase II, Post Office - New Forest, Dehradun-248006, Uttarakhand; Tel: 91-135-2760121; info@harcindia.org; www.harcindia.org

An autonomous voluntary development organisation works on sustainable development of people in the mountains.

Mountain Shepherds, Dehradun

43/2 Pocket 2, Vivek Vihar, GMS Road, Dehradun, Uttarakhand-248001; Tel: 91-971-9316777; bhotiya@gmail.com; http://mountainshepherds.prayaga.org/; Contact Sunil Kainthola, Coordinator

Works for cultural survival and sustainable development in remote areas, trains local people in eco-tourism and provides marketing support along trekking routes around Mussorie.

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

(from Prasanta Das)

Plot No. C-24, “G” Block, Bandra-Kurla Complex, P. B. No. 8121, Bandra (E), Mumbai-400051, Maharashtra; Tel: 91-22-26539244; Fax: 91-22-2652-8141; nabmcid@vsnl.com; http://www.nabard.org/

Development bank that facilitates credit flow for promotion and development of agriculture, small scale industries, cottage industries, handicrafts and other rural crafts.

ACCESS Development Services, New Delhi

(from R. K. Mukherjee)

27, Hauz Khas Village, New Delhi-110016, Tel: 91-11-26566060/4101; Fax: 91-11-26564081/29671; vsharma@careindia.org; http://www.careindia-microfinance.org/DefaultDetail.asp?qstxt=52

Working on creating viable small producers’ collectives to take the livelihood linkages to main markets by providing finance planning, market strategy & other technical services.

Self-Employed Women’s Association (SEWA), Ahmedabad

(from A. P. Dubey, Institute of Cooperative Management, Dehradun)

SEWA Reception Centre, Opposite Victoria Garden, Bhadra, Ahmedabad-380001, Gujarat; Tel: 91-79-25506444; Fax: 91-79-25506446; mail@sewa.org; http://www.sewa.org/

Organises poor women workers into self-employed groups through small businesses, provides work, income, food and social security to these women.

(from Navin Anand, Resource Person)

Loyalam Bank of Rural Development Organisation (RDO), Imphal

Lamsang, Imphal, Manipur-795146, Tel: 91-0385-310961; Fax: 91-0385-222936

Uses the Grameen Bank model, focuses on livelihood promotion and microfinance.

Rashtriya Gramin Vikas Nidhi, Guwahati

Bye Lane No. 8, Rajgarh Road, Guwahati-781003, Assam; Tel: 91-361-2452320; Fax: 91-361-2528523; rgvnho@yahoo.com; http://www.rgvnindia.org/; Contact Amiya Kr. Sharma; Executive Director; amiya_sharma@rgvnindia.org

Provides financial support to NGOs by way of returnable grants/revolving fund for any livelihood activity, including grants and institutional development costs in the northeast.

Ministry of Rural Development, Government of India, New Delhi

Krishi Bhawan, New Delhi-110 001, Tel: 91-11-23782373, 23782327; Fax: 91-11-23385876; http://www.rural.nic.in

Initiated SGSY, an anti-poverty alleviation programme that provides micro-credit and group insurance services to the poor through SHGs.

The Mountain Partnership

http://www.mountainpartnership.org

Voluntary alliance of partners; taps the wealth and diversity of resources, information, knowledge, and expertise of its members to support positive change in mountain areas.

(from Nupur Bahl, Research Associate)

Rashtriya Mahila Kosh, New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 91-11-23354619; Fax: 91-11-23354621, ed_rmk@nic.in; http://www.rmk.nic.in

Acts as a wholesaler in microfinance sector and lends to smaller but potentially capable organisations to promote thrift and credit under its loan promotion scheme.

SHG-Bank Linkage Programme, Mumbai

MicroCredit Innovations Department, NABARD, Head Office, Plot No. C-24, "G" Block, 2nd Floor, "E" Wing, Bandra-Kurla Complex, P.B. No. 8121, Bandra (East), Mumbai-400051, Maharashtra; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm>

NABARD's initiative to facilitate sustained access to financial services for unreached rural poor through various microfinance innovations.

Mimo Finance, Dehradun

#341, Vasant Vihar, Phase II, Dehradun-248006, Uttarakhand; Tel: 91-135-3205441; mimofin@gmail.com; <http://www.mimofin.com>

Start-up MFI exploring collaboration opportunities, which can provide BDS in agro-processing, dairy development, medicinal herbs and aromatic plants.

Recommended Tools and Technologies

MCHECK

(from Shivendra Sharma, Plural India, Gurgaon)

www.mchek.com

New payment system that merges credit card and mobile phone, allows customers to make payments from mobile phone, using any Visa/MasterCard credit card in India.

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. Issued 2 July, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-09050801.pdf>

Shared experiences related to microfinance services in terms of rural-urban, sector & sub-sectors of livelihood, implementation models, legal forms, national & state policies/laws in India.



Consolidated Reply

Query: Model for Urban Microfinance-Advice

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate
Issue Date: 2 August, 2007

From Varda Pandey, National Institute of Urban Affairs, New Delhi
Posted 16 July, 2008

I am working as an intern with the National Institute of Urban Affairs (NIUA). I am in the process of writing a paper that focuses on sustainable microfinance for the urban poor as a poverty alleviation tool. My study essentially focuses on the self-sufficiency of MFIs which would be complementary to the self-sufficiency of the client group that it targets.

Microfinance has been a successful phenomenon in rural areas, however, there has been very little documentation on the impact of microfinance in urban areas. Since urban poverty is growing much faster than its rural counterpart is, I am focusing on microfinance as a poverty alleviation tool for the urban poor. As a fair proportion of the rural migrants that constitute the urban poor are unskilled workers and a majority are seasonal workers without legal ownership of assets to offer against loans, in my view, a sustainable financial services setup for the urban poor would be enabled by not only working towards the financial sustainability of the MFIs, but also that of the urban poor by diversifying and supplementing financial services with capacity building. Further, in my opinion, government intervention would be effective to create an enabling environment, maintaining law and order, sanctity of contracts (addressing the identity crisis of the urban poor) and following policies that would foster macro-economic stability.

I am therefore attempting to build a model that will clearly define the role of Government, donors (both national and international), MFIs (following models that would better suit the urban poor communities), NGOs and commercial banks. This model would

favour minimal government intervention in financial activities/decision making and would build MFIs as commercial profitable ventures with the urban poor borrower as one of its stakeholders (thereby allowing the poor borrower the financial incentive – share in profits – to transform into financially responsible non-poor workers).

Hence, I would request the members to guide me further on how the urban microfinance market differs from the rural market and give advice on the following aspects related to the urban microfinance sector:

- What is the extent of government intervention in microfinance provision to the urban poor?
- What proportion of the urban micro-credit is still subsidised?
- Are lending rates predominantly administered below market rates?
- Experiences of MFIs with regard to regulation of interest rates charged, legal restrictions on saving mobilisation, restriction to raise commercial debt and capital market resources.

I would request the community members to share their experiences and advice on these issues facing the urban poor and impacting those organisations providing financial services to them.

Responses were received, with thanks, from

1. T. Asaithambi, Madurai Vattara Kalanjiam, Madurai
2. Vikash Kumar, Grameen Koota, Bangalore

3. Manab Chakraborty, Mimo Finance, Dehradun
4. Nitin Madan, UpLift India Association, Pune
5. G. K. Agrawal, NABARD, Mumbai
6. Janakiraman N., DHAN Foundation, Tiruttani
7. Navpreet Singh, Nidaan Samaj Sevi Samiti, Gwalior

Further contributions are welcome!

Summary of Responses

Responding to the query on developing models for urban microfinance, members highlighted the rapid urbanisation in Asia, particularly in India, which may soon cause urban poverty rates to exceed that of rural areas. Considering this fact, respondents discussed the various Government interventions that currently exist to assist the urban poor and highlighted the potential for MFIs to collaborate with these efforts. Members also raised the issue of interest rates and shared their experience working within the legal provisions in the current regulatory framework for savings and capital mobilisation.

Respondents highlighted several Government interventions that promote SHGs as vehicles to address the needs of poor women in both rural and urban areas, such as the Jawaharlal Nehru National Urban Renewal Mission. Members noted that though Government involvement is minimal, institutions like RBI, MABARD and SIDBI are lending policy support at the national level. Of the two models of microfinance that have emerged in India, SHG Bank Linkage and the Grameen model, the former has been spearheaded by NABARD and SIDBI with an emphasis on savings.

Members pointed out MFIs tend to work in the same manner in rural and urban areas, however, in some cases, MFIs have differentiated certain loan products from rural area operations to better suit the urban context. For example, they noted how urban clients often demand larger loan than their rural counterparts do. Additional research has investigated the urban demand for microfinance further and has demonstrated the vast potential for microfinance in urban areas.

In response to request for information on microfinance lending rates, respondents pointed out that microfinance rates are less than local moneylenders, but often higher than bank rates, due to the additional costs of delivery that MFIs face.

They explained interest rates are not subsidised – the market determines the rate of interest and varies from 18-24 percent. Members elaborated that interest rates cover not only the service of microfinance but also other services such as health, education and housing. Discussing the importance of holistically addressing the needs of the urban poor who face poor health and sanitation facilities and lack access to proper education, respondents highlighted several MFIs in the country who are attempting to combine microfinance with such services. At the same time, members noted there has been political pressure to bring interest rates down and MFIs are attempting to reduce rates while simultaneously trying to ensure sustainability. Discussants highlighted a case from Madurai where moneylenders reduced their interest rates due to the increased presence of MFIs.

On a related note, discussants pointed out the poor demand for loans during emergencies. Members cited examples where borrowers would take loans from moneylenders during a crisis, even when the interest rate was higher than the local MFI, because they could immediately access the money. Therefore, often what is more important than the rate of interest is the ability of the MFI to provide timely credit.

Respondents also shared the experiences of a non-deposit taking Non-Banking Financial Company (NBFC) working in urban areas of Dehradun and Haridwar. They mentioned that as per RBI guidelines, NBFCs are not permitted to mobilise savings, though there are no restrictions on interest rates or raising capital. Examples of several MFIs were given that are successfully working in urban areas through other regulatory provisions and have not registered as NBFCs. However, as a result, members observed that they often face higher costs of lending due to extensive daily outreach to members, resource mobilisation, and having to provide collateral security to banks. Additionally, respondents shared results from a study on poverty dimensions in urban Madurai which revealed that though the average income of urban households was Rs. 5,000/month, a large portion was spent on luxury items; this would which would be a consideration for MFIs when designing programmes/products in urban areas.

Members felt that given the current regulatory landscape and rapid urbanisation, microfinance alone cannot bring sustainability for both MFIs and the poor, since the problems of the urban poor are

different and slightly more complex than rural areas. Also, since most urban beneficiaries are unskilled and semi-skilled labourers (like flower vendors, vegetable vendors, fish vendors, scavengers, housemaid, etc.), respondents suggested that interventions need to focus on capacity building as well as professionalising the work they are doing in order to improve working conditions and standards of living. Discussants also recommended MFIs introduce new approaches such as individual lending to help better meet the needs of the urban poor. The individual lending system is largely preferred by urban clients, as members' experience has shown, who are involved in small businesses of selling and trading as they prefer to avoid joint liability and are sometimes unwilling to participate in group meetings due to lack of time.

Therefore, respondents advised combining microfinance activities with other services such as health, education, livelihoods and housing to truly address the comprehensive needs of the urban poor.

Comparative Experiences

Tamil Nadu

Learnings for Adapting Microfinance to the Urban Context, Madurai

(from Janakiraman N., DHAN Foundation, Tiruttani)

A study on "Poverty Dimensions in Slums of 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. 5,000 per month. This income was reduced to less than Rs. 1,500 per month, because households were spending their incomes on luxury items (i.e. liquor and gambling). Such learnings can help organisations to better design their microfinance programmes in efforts to alleviate urban poverty.

Karnataka

Differences in Urban Demand for Microfinance Services, Bangalore

(from Vikash Kumar, Grameen Koota, Bangalore)

Grameen Koota's operations include operations in urban areas, and have some differences in loan products from its rural area operations. Experience has shown that urban clients are often demanding higher loan sizes than their rural counterparts; thus, Grameen Koota started providing higher size loans to its urban clients. Grameen Koota mainly provides

loans for income generation, but has now started offering consumption loans as well.

Related Resources

Recommended Documentation

(from Vikash Kumar, Grameen Koota, Bangalore)

Nationwide Study on Expanding Microfinance Delivery to Urban India

Intellectap, Michael and Susan Dell Foundation, CARE and ICICI Bank; 2006

Available at <http://microfinanceindia.org/Docs/Urban%20Microfinance.pdf>

Study highlights the MFIs working in urban areas of India, and details the urban microfinance market potential and issues facing urban borrowers.

A Study of Economically Active Poor Women in Bangalore

Ujjivan Financial Services Pvt. Ltd., ABN-AMRO, Citigroup and Unitus; 2005

Abstract available at <http://www.ujjivan.com/UjjivanAbstractofMarketResearchPublication.pdf>

Study details the working and financial practices of women in Bangalore, the trends in the loans they are taking, their savings practices and their need gaps.

Individual Lending in Microfinance

Centre for Microfinance, Chennai; June 2006

Available at [http://ifmr.ac.in/cmfw/wp-content/uploads/2007/02/Daga-Individual_Lending-\(pres\).pdf](http://ifmr.ac.in/cmfw/wp-content/uploads/2007/02/Daga-Individual_Lending-(pres).pdf)

Outlines the major differences between the group lending and individual lending models of microfinance, the latter being more common in urban settings.

(from Anjum Khalidi, Research Associate)

Insights from the Microfinance Private Capital Symposium

Microcapital, Players Report 2005

Available at <http://microcapital.org/downloads/whitepapers/Geneva.pdf>

Highlights the role of Government entities in the microfinance sector in a presentation by Vijay Mahajan, chairman of BASIX.

Society for Elimination of Rural Poverty (SERP), Hyderabad

4th Floor, Hermitage Office Complex, Door No. 5-10-192, Hill Fort Road, Hyderabad-500004, Tel: 91-40-23298981; Fax: 91-40-23211848; http://www.velugu.org/What_Velugu/what_velugu.html

A microfinance programme supported by the State Government of Andhra Pradesh which promotes SHGs with an emphasis on capacity building, also referred to as Velugu in Telugu.

Urban Microcredit: The Current Scenario

Urban Poverty Alleviation Initiatives in India: A General Assessment and a Particular Perspective (2002), Ramanathan Foundation; October 2003
Available at <http://www.indiatogether.org/2003/oct/pov-credscene.htm>

Discusses the purposes of loans availed by urban slum dwellers as well as other issues facing the urban microcredit market; highlights SEWA's financial performance.

What Do We Know about Credit Cooperatives in India and its Role in the Microfinance Landscape?

Presentation; by Frida Ruiz; IFMR

Available at <http://ifmr.ac.in/cm/wp-content/uploads/2007/02/Credit-Co-ops-India.pdf>

Presentation discusses the regulatory environment of urban cooperatives and issues relating to the role of microfinance examples of Maharashtra and Andhra Pradesh.

Introducing Rural Finance into an Urban Microfinance Institution: The Example of Banco Procredit, El Salvador

By Juan Buchenau and Richard L. Meyer; International Conference on Rural Finance Research: Moving Results into Policies and Practice, FAO; Rome, Italy; March 2007

Available at http://www.fao.org/ag/rurfinconference/docs/papers_theme_3/introducing_rural_finance.pdf

Provides insights into the processes undergone by Banco Procredit El Salvador to introduce urban microfinance; shares lessons learned and goes into detail on individual lending.

Reaching Out to the Poor

Microfinance Insights Newsletter, Vol. 2, Intellectap; March 2007

Available at

http://www.microfinancegateway.com/files/39750_file_MF_Insights_Issue_2_Low_Res.pdf

Newsletter focuses on the issues facing the urban microfinance market, including latest research on market potential; highlights the MFIs working in urban India.

Recommended Organisations and Programmes

(from Vikash Kumar, Grameen Koota, Bangalore)

Grameen Koota, Bangalore

Grameen Koota-Microfinance Institution, JP Nagar, 9th Phase, Anjanapura Post, Avalahali, Off Knakapura Road, Near Khoday's Glass Factory, Bangalore-560062, Karnataka; Tel: 08028436237; info@grameenkoota.org; http://grameenkoota.org/html/about_GK.asp

MFI operating in both rural and urban areas with higher loan sizes to meet urban demand for income generation loans.

Ujjivan, Bangalore

#93, Jakkasandra Extension, Sarjapur Main Cross Road, 1st Block, Koramangala, Bangalore-560034 Karnataka; Tel: 080-4146-8600; Fax: 080-4146-8700;

http://www.ujjivan.com/whatwedo_products.htm

Urban MFI providing loans to salaried and self-employed women for income generation as well as consumption; has conducted a market research study for urban microfinance.

Michael and Susan Dell Foundation (MSDF), New Delhi

A-3, Qutab Hotel, Shaheed Jeet Singh Marg, New Delhi-110016, Tel: 011-4166 6300; Fax: 011-4166-6302;

<http://www.msdf.org/priorities/Priorities.aspx?id=27>

Has led market research for the scope of microfinance in urban India and has invested in several urban MFIs to deliver financial services to the urban poor.

Janalakshmi Financial Services, Bangalore

612, 1st 'C' Main Road, Domlur Layout, Bangalore-560071, Karnataka, Tel: 080-2535-0301; info@janalakshmiindia.org; <http://www.janalakshmi.org/>

MFI providing services through individual lending model in urban areas.

Bellwether Fund, Hyderabad

III Floor, 8-2-596, Road No. 10, Banjara Hills, Hyderabad-500034, Andhra Pradesh; Tel: 040-6646-0505/5883; Fax: 040-6646-5884; info@bellwetherfund.com;

<http://www.bellwetherfund.com/about%20us.html>

Invested in several urban MFIs that are high potential start-ups, and established medium-sized MFIs looking to transform into legally appropriate entities.

Mimo Finance, Dehradun

(from Manab Chakraborty)

#341, Vasant Vihar, Phase II, Dehradun, Uttarakhand–248 006; Tel: 135-6451719; Fax: 135-2763573; mimofin@gmail.com; <http://mimofin.com/default.aspx>; Contact Mr. Manab Chakraborty, CEO; manabc@gmail.com

Non-deposit taking NBFC delivering microfinance in urban areas of Dehradun and Haridwar.

(from G. K. Agrawal, NABARD, Mumbai)

Small Industries Development Bank of India (SIDBI), Lucknow

15, Ashok Marg, Lucknow–226001, Uttar Pradesh; Tel: 0522-2288547-50; <http://www.sidbi.in/Micro/index.htm>

Involved in supporting the microfinance sector at the national policy level as well as promoting the SHG-bank linkage model of microfinance.

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

Micro Credit Innovations Department, 2nd Floor, 'E' Wing, C-24, 'G' Block, Bandra-Kurla Complex, Bandra (East) Mumbai, Maharashtra–400051; Tel: 022-26539272; Fax: 022-26528141; mcid@nabard.org; <http://www.nabard.org/departments/microcreditinnovationdepartment.asp>

Supports the growth of the microfinance sector at the national policy level as well as developing the SHG-bank linkage model of microfinance.

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad–500001, Andhra Pradesh; Tel: 040-30512500/30512501; Fax: 040-30512502; <http://www.basixindia.com/ContentDisplay.asp?contid=45#>

Microfinance and livelihood promotion institution working in urban and rural areas, using biometric cards and other innovative approaches to reach poor borrowers.

SKS Microfinance, Hyderabad

301, Babukhan Estate, Basheerbagh, Hyderabad–500029, Andhra Pradesh; Tel: 040-23298131/41; Fax: 040-23298161; info@sksindia.com; <http://www.sksindia.com/06sep1st.htm>

Working in the urban slums of Hyderabad since 2006 providing microfinance services, modelled after SKS' programmes in rural parts of the state adapted for the urban context.

SHARE Microfinance Ltd., Hyderabad

1-224/58, Rajeev Nagar, Nacharam, Hyderabad–500076, Andhra Pradesh; Tel: 040-27158380/7; Fax: 040-27158225; sml@sharemicrofin.com; http://www.sharemicrofin.com/aboutus_our_strategy.htm

One of the largest MFIs in India; working both in urban and rural areas, it offers individual lending and has developed innovative products to address needs of poor.

Swaadhar FinAccess, Mumbai

451, Dindoshilla (G-1), 15th Road, Khar, Mumbai–400052, Maharashtra; Tel: 022-26048332; Fax: 022-26487485; headoffice@swadhaar.org; <http://www.swadhaar.org/>

New, start-up MFI focusing exclusively on urban areas targeting the economically active poor by offering a variety of loan and savings products.

Pradhan Mantri Rojgar Yojana (PMRY), New Delhi (from Navpreet Singh, Nidaan Samaj Sevi Samaiti, Gwalior)

Udyog Bhavan, Rafi Marg, New Delhi–110011, Tel: 011-23061566/1739; Fax: 011-23063141; http://ari.nic.in/ari_pmrymain.htm

Government scheme providing self-employment through SHGs to educated unemployed youth in urban and rural areas; potentially useful for MFIs to collaborate and target these urban clients.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM), New Delhi

(from T. Asaithambi, Madurai Vattara Kalanjiam, Madurai)

Ministry of Housing and Urban Poverty Alleviation (M/o HUPA), Government of India, Nirman Bhawan, Maulana Azad Road, New Delhi–110011, Tel: 011-23061419/20; js-jnnurm@nic.in; http://www.jnnurm.nic.in/jnnurm_hupa/index.html

Works with the urban poor, particularly slum dwellers, for socio-economic development; has potential to link with MFIs to target poor urban borrowers.

Swabhimaan, Pune

(from Nitin Madan, UpLift India Association, Pune)

301/18 Goodwill Enclave, Kalyani Nagar, Pune–411026; Contact Mr. Kishor Magdum; Director; kbmfour@gmail.com

MFI working in urban areas using JLG model as well as the individual lending model of microfinance.

Dhan Foundation, Madurai

(from Janakiraman N., DHAN Foundation, Tiruttani)

18, Pillaiyar Koil Street, S.S. Colony, Madurai-625016,
Tel: 452-2610794, 2610805; Fax: 452-2602247;
dhan@md3.vsnl.net.in; [http://www.dhan.org/
themes/kalanjiam.php](http://www.dhan.org/themes/kalanjiam.php)

Works with the urban poor, particularly slum dwellers, for socio-economic development; has potential to link with MFIs to target poor urban borrowers.

Consultative Group to Assist the Poor (CGAP), USA (from Anjum Khalidi, Research Associate)

900 19th Street NW, Suite 300, Washington D.C.
20006, United States; Tel: 1-202-473-9594; Fax: 1-
202-522-3744; cgap@worldbank.org; [http://www.
cgap.org/portal/site/cgap/](http://www.cgap.org/portal/site/cgap/)

Works on issues related to regulation, interest rates, capital markets and other relevant issues currently facing the microfinance sector in India, including in urban areas.

Related Consolidated Replies

Redesigning GoI Urban Employment/Livelihoods Programme

*from Alkesh Sharma and Ashok Malhotra, UNDP, New Delhi (Advice).
Work and Employment Community. Issued 25 May, 2007*

Available at [www.solutionexchange-un.net.in/emp/
cr/cr-se-emp-01050701.pdf](http://www.solutionexchange-un.net.in/emp/cr/cr-se-emp-01050701.pdf)

Provides advice on re-designing the Government of India's urban self-employment programme, SJSRY, specifically on aspects of self-employment and employability.

II. ***Social and Economic Perspectives and Inclusion***



Poverty Microfinance Community



Consolidated Reply

Query: Microfinance Models for Muslim Community in India, from ICRISAT, Hyderabad – Advice

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate

Issue Date: 21 December, 2006

From Abdul Rahman Ilyas, ICRISAT, Hyderabad

Posted 24 November, 2006

I am a member of consortium, which has a keen philanthropic interest in studying and helping the socially challenged sectors with income generating livelihood options and thereby devising a model for easy replication by any Civil Society Organisation.

As members would be aware that Muslims by practice are not supposed to take money on interest/pay interest or earn interest as income as it is considered "Haram" [forbidden]. Thus, in an attempt to address this constraint to financial access specific to the Muslim minority community, we are exploring the possibility of developing different microfinance models for this group, which can be tested and upscaled, by institutions like National Minority Development and Finance Corporation (NMDFC) and other parallel institutions working for the well being of minorities. The scope for MFIs in India is ever growing and the institutions involved are trying to come up with newer products and models for effective implementation. As examples, a model could be developed wherein the microfinance component is directly linked to the earning of the beneficiary or a model like cluster business approach wherein each individual will have his own business linked to a cluster working on common business goals. I am looking at valuable insights from members on a new microfinance model especially for Muslim minority community in Indian context.

In this context, my questions to the members are:

- Is it possible to devise interest free microfinance products for the community like this in the first place?
- If yes, what is the best way to implement it and

which are those institutions which are already providing such products or will be willing to do so?

This question is focused for the benefit of Muslim communities who comprise a big number in our country and have better percentage than others in doing small businesses. Valuable suggestions can give them a choice, as there is no choice for interest free loans linked to the growth of business or the practice of Islamic Banking in our country.

Looking forward to your valuable insights!

Responses were received, with thanks, from

1. Subhash Mendhapurkar, SUTRA, Jagjit Nagar
2. Toms K. Thomas, ESAF, Pathinmathitta, Kerala
3. Rohit Raina, ACCESS Development Services, Jabalpur
4. Suryamani Roul, ACCESS Development Services, New Delhi
5. V. D. Sharma, Department of Business Economics, VBS Purvanchal University, Jaunpur
6. Heena Gupta, Delhi High Court, Faridabad
7. Raj Kumar Jani, District Poverty Initiatives Programme, Jaipur
8. Smita Premchander, Sampark, Bangalore
9. Nitin Garg, MicroSave India, Lucknow
10. Ramesh Arunachalam, Microfinance Consulting Group, Chennai
11. Sarah Djari, Centre for Microfinance, Chennai

12. Vineet Rai, Intellectap, Mumbai
13. Anand M. Tiwari, Tribal Development Department, Government of Gujarat, Gandhinagar
14. Manoj Sharma, MicroSave India, Lucknow
15. Niraj Verma, World Bank, New Delhi
16. A. Siddick, n-logue Communications, Chennai (Response 1; Response 2)
17. Nachiket Mor, ICICI Bank, Mumbai
18. M. B. Subramnyamreddy, Andhra Pradesh Mahila Abhivruddhi Society, Hyderabad
19. P. Padmanaaban, McLevy Institute of Development Services, Chennai
20. Islam Husain, PAHAL, Nainital

Further contributions are welcome!

Summary of Responses

Responding to the query on devising and delivering interest-free microfinance products for the Muslim community in India, members provided solutions to ensure financial sustainability of microfinance providers while respecting the Islamic principle of not earning or paying interest as income. Respondents shared experiences of Islamic banking models, both profit sharing and non-profit sharing, implemented successfully in several countries with a majority Muslim population.

Sharing affirmative views on the possibility of developing interest-free microfinance models for Muslims communities, members highlighted examples of Islamic finance followed in other countries. One member compiled a glossary of Islamic financial products and various modes of Islamic banking documented from experiences in Afghanistan, the Middle East, parts of Africa and South Asia. Respondents stressed that the Islamic Banking model (based on profit sharing with each client), could work in India provided, organisations are able to incentivise the borrower-household and borrowers avoid under-reporting earnings. A possibility suggested was to give a share of the household revenue to JLG (“upward sharing”) to ensure proper revenue reporting; the same way groups engage in “downside sharing” if a group member defaults. The equity based lending model adopted by venture funds is comparable to Islamic banking, members pointed out, the only difference is that the equity based lending model, “exit”, is honesty driven and works on profit sharing basis. However, members highlighted the possibility of malpractice by MFIs, claiming to provide interest

free microfinance services, as occurred recently in western Uttar Pradesh.

Since the above interest-free models, based on profit sharing with individual clients, entail the difficult task of observing and monitoring revenue at the household level, members suggested several options. One suggestion was to fix a nominal rate of interest. Interest rates, members emphasised are essential for the financial sustainability of the microfinance model, because they cover the transaction costs incurred at various levels from the bulk lending institution to bank, the bank to MFI and the MFI to client. Along with transaction costs, there are also operating costs, including staff salaries and administrative activities (i.e. process applications, disburse loans, collect payments, and form groups). Interest rates typically comprise inflation, a “loan loss” provision and a profit component as well, members noted.

Another idea was that instead of charging interest, MFIs could administer a “service charge” for providing financial access to meet costs. Members advised presenting this “cost of money” as service fee or processing fee or in the case of SHGs as a “donation” to the MFI. Respondents recommended explaining to customers why the MFI is charging for providing a loan. In support of this approach, members shared experiences from Muslim countries like Bangladesh, Pakistan, Tunisia, and Morocco, where major MFIs provide interest linked microfinance services. This approach, respondents noted is also being used in India. In Andhra Pradesh, an organisation provided loans at low interest rates to poor Muslim communities and in Rajasthan, a MFI used a small increase in the amount of daily savings collected from group members cover its service fee.

Members discussed divergent views on the “appropriate” rate of interest. One view was that if banks and MFIs pay a low rate for the capital they raise, the benefits of this low interest needs to be passed on their clients. On the other hand, members opined that interest rates cover not only the MFI’ costs, but also help MFIs accumulate sufficient reserves to finance expansion. Transaction costs incurred by MFIs may vary depending on population density (rural vs. urban) and degree to which the microfinance model has penetrated an area (e.g. in areas that have not been served before, customers require more handling). Hence, capping interest rates could prevent MFIs from meeting their objective of outreach, respondents pointed out.

In conclusion, members recommended studying the present system of lending to the Muslim community and working on ways to strengthen and extend it for a larger Muslim population. They also advised following a cluster-development approach to support Muslim entrepreneurs and adding value to the existing system of microfinance by including BDS to provide a complete livelihood package.

Comparative Experiences

Andhra Pradesh

Mahila Organisation Providing Loans to Muslim Women

(from M. B. Subramnyamreddy, Andhra Pradesh Mahila Abhivruddhi Society, Hyderabad)

A variety of credit societies operating in different slums came together to form an umbrella credit society called Roshan Vikas. It provided loans to the slum dwelling women from Muslim and Hindu communities at reasonable interest rates. It brought about communal harmony and economic prosperity amongst SHG borrowers. The change was not restricted to their physical welfare; the women are now more assertive, confident and aware of their rights.

Rajasthan

New Microfinance Initiative by Sindhi Community

(from Raj Kumar Jani, District Poverty Initiatives Programme, Rajasthan)

The Sindhi community from Jaipur, culturally similar to the Muslim community in terms of customs, contributed an initial corpus to initiate micro-credit through a multi-state cooperative. The cooperative provided interest based micro-credit to almost 50 groups. It also plans to provide capacity building and market linkage services to its borrowers. A small increase in the amount of daily savings collected from group members covered the cooperative's service fee.

International Bangladesh

Grameen Bank's Interest Linked Microfinance Services

(from M. B. Subramnyamreddy, Andhra Pradesh Mahila Abhivruddhi Society, Hyderabad)

The Bank was set up as a national level banking service for the poor women. In the predominantly Muslim country, it provided sustainable interest based microfinance services to over six million poor

borrowers at a competitive market interest rate effectively lower than that of government's interest rate with 99 percent recovery rate as of August 2006. It has decided neither to receive any more donor funds nor to take loan from external sources in future.

Related Resources

Recommended Organisations

(from M. B. Subramnyamreddy, Andhra Pradesh Mahila Abhivruddhi Society, Hyderabad)

Confederation of Voluntary Associations (COVA), Hyderabad

20-4-10, Near Bus Stand, Charminar, Hyderabad-500001, Tel: 91-40-24574527, 24572984; Fax: 91-40-24567087; <http://www.indianngos.com/c/confederationsofvoluntaryass.htm>

Network of community-based organisations promoting interest based microfinance to maintain communal harmony and economic prosperity among Hindu and Muslim women.

Roshan Vikas, Hyderabad

20-4-10, Near Bus Stand, Charminar, Hyderabad-500001, Tel: 91-40-24574527 or 24572984; Fax: 91-40-24567087

Mutual Aid Cooperative Society working for economic empowerment of Muslim and Hindu women through interest based microfinance.

Grameen Bank, Bangladesh

Grameen Bank Bhavan, Mirpur-1, Dhaka-1216, Bangladesh; Tel: 88-02-9005257-69; grameen.bank@grameen.net; <http://www.grameen-info.org/bank>

Largest MFI in Bangladesh, provides interest based microfinance services to the poor section of the Muslim population.

National Minority Development and Finance Corporation, New Delhi

(from Abdul Rahman Ilyas, ICRISAT, Hyderabad)

1, Taimoor Nagar, Opposite D-996, New Friends Colony, New Delhi-110065, Tel: 91-11-26326051/59, or 26325652/3; Fax: 91-11-26325651; nmdfc@nmdfc.org; <http://www.nmdfc.org>

Government institution working for economic development of poorer minorities including Muslims, provides interest based microfinance services to NGOs promoting SHGs.

Aavishkaar, Mumbai

(from Vineet Rai, Intellectap, Mumbai)

Unit No. 221, Atlanta Estate, Off Western Express Highway, Goregaon (E), Mumbai-400063, Tel: 91-22-32535292; Fax: 91-22-28778255; vineet_rai@aavishkaar.org; <http://www.aavishkaar.org>

Venture fund to promote entrepreneurship and microfinance in rural and semi-urban areas with the provision of financial investment and other resources.

REACT-India Trust, Tamil Nadu

(from A. Siddick, n-logue Communications, Chennai)

4/37, Muthumariamman Koil, 2nd Street, Meenakshipuram, Karaikudi, Tamil Nadu-630001, Tel: 91-4565-236228; Fax: 91-4565-2453071; siddicka@yahoo.co.uk

NGO promotes rural micro-credit by forming and nurturing SHGs and linking them with formal banks under SBLP.

Recommended Documentation

Glossary of Islamic Financial Products and Modes of Islamic Financing

(from Ramesh Arunachalam, Microfinance Consulting Group, Chennai)

By Ramesh S. Arunachalam; Microfinance Consulting Group, Chennai

<http://www.solutionexchange-un.net.in/mf/cr/res29110604.doc>

Contains a list of defined Islamic financing terms and different modes of Islamic financing including both profit and loss sharing (PLS) modes and non-PLS modes.

Towards a Just Monetary System

(from Anand M. Tiwari, Tribal Development Department, Government of Gujarat)

By Dr. M. Umer Chapra; Islamic Foundation, United Kingdom; 1985

Book explaining the Islamic monetary system and the rationale behind the prohibition of interest and strengths of a purely equity-based Islamic economy.

An Application of Islamic Banking Principles to Microfinance: A Technical Note

(from Manoj Sharma, MicroSave India, Lucknow)

By Rahul Dhumale, Amela Sapcanin and William Tucker; Regional Bureau of Arab States, UNDP Middle East and North Africa Region and the World Bank; December 1999

Note examines ways of combining Islamic banking with microfinance, providing interest free microfinance to entrepreneurial poor

Islamic Finance Conference: Challenges and Opportunities

(from Niraj Verma, World Bank, New Delhi)

World Bank; 2006

Note on recent conference held on the corporate governance and risk management challenges for institutions offering Islamic Financial Services.

(from Sachin Kumar, Research Associate)

Case Study: Islamic Microfinance and Socially Responsible Investments

By Chiara Segrado; MEDA Project, Microfinance at the University, University of Torino, Italy; August 2005
<http://www.saa.unito.it/meda/pdf/Islamic%20microfinance.pdf>

Aims to focus on the role of Islamic finance in Muslim societies as a potential to fight poverty through interest free microfinance services.

Banking Regulations and Islamic Banks in India: Status and Issues

By M. Y. Khan; International Journal of Islamic Financial Services, Vol. 2, No. 4, Jeddah, Saudi Arabia; January-March, 2001

<http://islamic-finance.net/journals/journal8/mykhan.pdf>

Paper covers a comparative analysis of Islamic banking and interest based banking, issues and constraints of Islamic banks in India.

Interest Free Micro Credit Programme Designed for Urban areas of Pakistan

By Fazal ur Rehman; The Heller School for Social Policy and Management, Brandeis University; Alternative Finance Website

Article describes how an interest free micro-credit programme for the Muslim offers social services along with loan on PLS basis of the business.

Recommended Portal and Information Base

<http://www.saa.unito.it/meda/publications.htm>

(from Sachin Kumar, Research Associate)

Comprises a series of publications and case studies on microfinance practices in Muslim countries like Morocco, Jordan, Palestine etc.



Consolidated Reply

Query: Microfinance Services through Mobile Phone Banking in Remote Areas – Experiences and Advice

Compiled by Navin Anand, Resource Person, Nupur Bahl and Gitanjali Sah, Research Associates, and Arun John, Intern
Issue Date: 2 June, 2008

From Manab Chakraborty, Mimo Finance, Dehradun

Posted 23 April, 2008

In India, a majority of the people do not have a bank account or access to basic financial services. Many poor people remain unattractive to formal financial agencies as the size of their transactions is small, and many live in remote areas beyond the reach of banks' branch networks.

I see mobile phone banking as an important option for extending microfinance services to people living in remote and low population areas. There are several reasons for this – a) coverage is expanding rapidly; b) low cost of operations; c) low cost for subscribers, and d) handling is easy – within the capabilities of the barely literate. Though phone banking has made headways in Philippines, Kenya, and South Africa, India has been relatively slow to tap this new technology. In my own state Uttarakhand, nine lakh households remain outside the pale of the formal postal and banking network because they live in mountainous areas not connected by roads. Since this situation could be similar to other states of the country, especially the mountain states, I see 'Mobile Phone Banking' as an option that offers great potential to reach out to the poor placed in remote areas.

I would like to know from our esteemed members the following:

- Experiences of banks and other MFIs experimenting with Mobile Phone Banking for low income consumers?
- How does 'Mobile Phone Banking' compare (in terms of cost, convenience, and customer

acceptance) with other new technologies, e.g. biometric smart cards introduced by the State Bank of India and ICICI?

- The names of phone companies and vendors in India providing mobile phone banking solutions to MFIs.

We are trying to set up mobile phone banking services in Uttarakhand, and also want to know the names of leading industry specialists who could help in promoting mobile phone banking in Uttarakhand. Members' inputs would be extremely helpful in setting up mobile phone based microfinance services.

Responses were received, with thanks, from

1. Abhishek Mendiratta, Consultant, New Delhi
2. John Borgoyary, United Nations Development Programme (UNDP), New Delhi
3. Raghavender Anand, Ashirvad Microfinance Limited, Chennai
4. Vipin Kumar, Reliance Retail Ltd., New Delhi
5. Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai
6. Sanjay Verma, PrimeNET Consulting Group, Lucknow
7. Pankaj Kumar Shrivastav, United Nations Development Programme (UNDP), New Delhi
8. Rahul Rawat, Self-Help India, Dehradun
9. Rama Devi, National Institute for Smart

- Government (NISG), Hyderabad
10. G. K. Agarwal, Rural and Microfinance Consultant and Advocate, Mumbai
 11. Mallika Kumar, Shriram College of Commerce, University of Delhi, New Delhi
 12. R. K. Mukherjee, ACCESS Development Services, New Delhi
 13. N. Jeyaseelan, Indian Bank, Madurai*
 14. Awanish Somkuwar, Madhya Pradesh Rural Livelihoods Project, Bhopal*

*Offline Contribution

Further contributions are welcome!

Summary of Responses

Mobile phone banking is emerging as a technology based option for expanding the reach of microfinance services and enhancing financial inclusion in India. While elucidating on the importance of using mobile banking to reach microfinance services to people living in remote and low population areas, respondents shared various experiences of banks and MFIs in India and abroad, and discussed using mobile banking to provide financial services and improve financial inclusion.

Explaining that financial inclusion involves delivering banking services at an affordable cost to disadvantaged and low income groups, members advised banks/MFIs redesign their business strategies to incorporate specific plans to promote inclusion of low-income groups. Mobile phones provide financial services in two basic ways – as a system of internal management and for conveying information about transactions between MFIs and their customers.

Sharing comparative data on mobile subscriber rates in India, China and United States, discussants argued considering the rapid growth in mobile phone usage, offering financial services through mobiles could help thousands, especially in rural areas, gain access to financial services (banking and insurance products). Such a system would also reduce transaction costs involved in providing rural credit.

Sharing experiences from India, respondents informed about a pilot project by the Government of Andhra Pradesh. The project is testing two approaches for providing financial services using mobile phones. The first approach is giving social benefits to citizens through a bank-led model using smart cards

and mobile phones as “Point of Transaction (PoT)” devices; the POT technology uses General Packet Radio Service (GPRS) and the Global System for Mobile communications (GSM). The second approach uses a Public-Private Partnership (PPP) model, where the Government employs vendors/BCs to disburse cash to beneficiaries utilising an integrated PoT device.

Other Indian experiences mentioned included that of a Non-Banking Financial Company, (patterned on the Grameen Bank model), which is utilising mobile phone banking technology to manage microfinance activities, not for lending to members with technical support provided by Chennai based company. Members also shared information about a joint initiative between BASIX and Axis Bank. Together they are providing no frill banking services for enhancing financial inclusion to migrant workers in Delhi.

Additionally, respondents listed banks engaged in m-banking, such as Corporation Bank, a public sector bank launching mobile phone banking services in association with a private company. Under this facility, customers use their mobiles to pay for purchases; however, members noted it does not target the poor.

Another example is a pilot project where seven banks deployed two companies to provide mobile phone banking services. The project brought customer service points equipped with new generation Near Field Communication (NFC) enabled mobile phones, contactless Radio-Frequency Identification (RFID) smart cards and integrated biometrics together.

Linking mobile phone banking with livelihoods, respondents quoted the example of a private company working on CDMA platform (a type of mobile phone standard), which has demonstrated the use of a mobile phone-based menu driven information and knowledge system for the fishery sector. Discussants also highlighted the work of the Mobile Payment Forum of India to promote mobile payment solutions for financially excluded people.

Along with cases from India, members shared a number of successful international mobile phone banking experiences. In the Philippines, Smart Communications, one of the country’s largest mobile phone companies is offering financial transactions through mobile phones. In this experiment, disbursement of money is carried out through a network of different types of institutions serving at

the grassroots level. In South Africa, the Bank of South Africa is implementing 'WIZZIT'. WIZZIT makes banking services easily available to non-bank account holders through mobile phones. Respondents pointed out that the model has a low transaction cost and is helpful in high crime areas, because it does not require customers to carry cash. Members also cited an example from Tanzania. 'Mobitel Tanzania' is designed specifically for the African market and provides multifaceted microfinance services, such as deposits, savings and money transfer through mobile phones.

Another case mentioned was the experiment of a leading MFI in Mongolia, XACBank, which is providing financial services through mobiles. Discussants noted that Mongolia is very similar to Uttarakhand in terms of geographic and demographic conditions and thus felt this would be an especially useful case to consider. Moreover, respondents suggested studying the experience of Grameen Bank in Bangladesh, which provided mobile phones to all its members.

Additional research on the subject revealed another international experiment, 'M-PESA' in Kenya, an initiative of an international mobile phone company in partnership with a private company. Research also highlighted key committee reports commissioned by NABARD and the Planning Commission on m-banking.

Discussing potential obstacles, members felt illiteracy could prove an issue when using technologies like mobile phones, especially for tribal communities, and suggested that literacy and technological orientation accompany any attempts to introduce mobile banking. Moreover, mobile banking presupposes that the mobile holder has a bank account, and thus along with providing capacity building, organisations will have to focus on financial inclusiveness.

Looking at the unique nature of states such as Uttarakhand where a 'money order' economy prevails and transferring money is problematic, discussants felt mobile phone banking would prove an effective way to expand the reach of financial service delivery. They also suggested when banks or MFIs reach out to potential customers, they break them into various customer segments by size, specific needs (such as orientation in mobile phone technology), and growth opportunities. Additionally, members recommended organisations attempting to implement mobile phone banking projects follow the six P's – "Prior Proper Planning Prevents Poor Performance."

Analysing the regulatory scenario, members stressed on four critical areas for RBI and the Ministry of Finance, Government of India to review:

- Enhance penetration of mobile phone banking.
- Expand deposit taking regulation.
- Increase access of m-transactions operators to the clearing system.
- Adopt Know Your Customer (KYC) Anti-Money Laundering (AML) guidelines related to consumer data regulations to m-banking.
- Interoperability of m-transactions schemes.
- Members also listed various resources, websites and organisations involved with mobile phone banking.

To conclude, respondents in the discussion enumerated the benefits of mobile phone banking, such as reducing transaction cost, making money transfers and remittances faster and safer, increasing accessibility to money, and improving access to information markets. Respondents reiterated that m-banking can be introduced by MFIs to enhance the outreach and portfolio of microfinance services.

Comparative Experiences

Andhra Pradesh

(from Rama Devi, National Institute for Smart Government (NISG), Hyderabad)

Using Smart Cards for Disbursing Social Benefits to Citizens, Karimnagar and Warangal Districts

Pilot by Vendor 1: A mobile phone was used as a PoT to carry out the transactions and the connectivity between back end server and the PoT is through GSM/GPRS. This is a Bank led model. The beneficiaries need to have an account in the bank. After the money is deposited in the Bank by the Government, the vendor disburses the benefits in the form of cash to the beneficiaries at the village through BC. The RBI with the aim of ensuring greater financial inclusion and to reach the unbanked, has permitted banks to use the services of intermediaries, incomplete

Karimnagar and Warangal Districts

Pilot by Vendor 2: An integrated PoT device is used for carrying out the transactions and the connectivity is through dial up. This is a PPP model. The Government transfers the amount in the vendor/BC's account in a bank and the vendor disburses the cash to the beneficiaries. The Government of Andhra Pradesh wanted to adopt the PPP model in scaling up in some of the districts. But as per the RBI's regulations, the Government had to adopt the Bank led model and

RBI has in fact constituted a committee to study in depth the technology and business issues governing both the models.

(from John Borgoyary, UNDP, New Delhi)

Uttarakhand, Mizoram, Meghalaya and Andhra Pradesh

Access to Banking Services through Mobile Phones Next Experience (NXP) Semiconductors and A Little World have collaborated to bring easy banking solutions to around 45,000 people living in over 450 villages in four states. NXP designed a mobile that encodes an RFID card that will work with A Little World's micro-banking platform ZERO. The successful pilot project provided customers with new generation NFC enabled mobile phones, a RFID smart card and integrated biometrics.

Delhi and Bihar

No-Frills Banking Services for Poor Migrant Workers A joint initiative of BASIX and Axis Bank provides banking services to poor migrant workers living in eastern parts of Delhi. Initiated by BASIX, the project covers 1,500 urban labourers who have migrated to the capital, leaving behind large families in their native villages in Bihar. These labourers are being provided assistance through the financial inclusion programme with the use of mobile phones started by Basix, and have resulted in easy and efficient banking solutions.

India

Banking Innovations Promote Financial Inclusion

(from Abhishek Mendiratta, Consultant, New Delhi)

Citibank has introduced the biometric credit payment system where customers are identified through fingerprint rather than a signature or PIN. The bank has launched two biometric ATMs in India. The bank aims to redesign its business strategies to promote financial inclusion of low income groups—treating it like a business opportunity and a corporate social responsibility initiative.

International

India, United States and Sri Lanka

Mobile Phone Banking by a Public Sector Bank

(from N. Jeyaseelan, Indian Bank, Madurai)

One of the first mobile phone banking services in India was launched by Corporation Bank in association with

Paymate India Pvt Ltd. Customers with Corporation Bank account can register their mobile number and use their mobile to pay for their purchase at 2,500 merchant establishments. Customers do not need to keep a minimum balance and there are no monthly fees. Merchants send an SMS to the bank, once the SMS is replied to, the bank authorises the debit. The m-banking service is free.

Philippines

Remittance Services Offered through SMS

(from Vipin Kumar, Reliance Retail Ltd., New Delhi)

One of the largest mobile phone companies in the country, Smart Communications is providing financial transaction services through mobile phones. Subscribers open an electronic wallet account with Smart Communications, which permits them to do financial transactions using their mobile phones. In 2004, Smart Communications also started providing remittance services through SMS. The details of money transfer/withdrawal/receivable are reflected on the mobile account.

(from Pankaj Kumar Shrivastav, UNDP, New Delhi)

Tanzania

Mobile Phones Provide Access to Deposit and Saving Services

The Mobipawa helps subscribers to open an account where money can be deposited and accessed easily. It provides a wide range of financial services such as money transfers, which are accessible through mobile phones. The Mobipawa account is designed specifically for the African market. Mobipawa also plans to launch new services bill payments etc.

Mongolia

XacBank Outreach Initiative for Rural Areas

Low population density and poor infrastructure limits access to financial services. To address this, Xac Bank, a leading MFI, initiated the MicroStart Mongolia project funded by UNDP in 1997 to help improve access to services. Through the project, XacBank has expanded its outreach to small farmers in rural areas. They operate using a local savings and credit cooperative, and in 2005 successfully introduced mobile banking as a transaction strategy in 130 slums.

South Africa

'WIZZIT' – Experiment of South African Bank of Athens Limited

(from Rahul Rawat, Self-Help India, Dehradun)

'WIZZIT', provides microfinance services to those who have not been served by the normal banking network or who were "under banked." Banking is made easy as customers are not required to have an account. WIZZIT provides Cellone-to-Cellone transactions for its customers. They can use debit cards at ATMs and retailers, and there is no requirement of a minimum balance for WIZZIT customers.

Kenya **M-PESA—Mobile Payment Solutions**

(from Navin Anand, Resource Person)

Safaricom, the leading mobile communications provider in Kenya has launched M-PESA, developed by Vodaphone. It is an innovative mobile payment solution, enabling customers to complete simple financial transactions by mobile phone. It targets mobile customers who do not have a bank account. The registered customers can avail of banking facilities (deposit/withdrawal, etc) using SMS.

Related Resources **Recommended Documentation**

(from Pankaj Kumar Shrivastav, UNDP, New Delhi)

Tanzania's Place in the Mobile Revolution

Article; September 3, 2007

Available at <http://www.mobipawa.co.tz/mobipawa?kom=106420&nid=9>

Informing about an initiative that allows access to financial services through mobiles for previously under-served communities, has boosted Tanzanian economy.

XacBank

Article; Wikipedia; April 20, 2008

Available at <http://en.wikipedia.org/wiki/XacBank>

Informing about the history and products of XacBank; a community development bank that provides customers with mobile banking services.

Branchless Banking is Born in India

Article; Huddles; Netherlands; November, 2007

Available at http://www.upsides.nl/Download/UPSides_4.pdf

Magazine about finance and development, features an article on Mobile Banking in India.

An Overview of the Mobile Phone Banking Industry

Paper; by Manuel Bueno; IE Publishing Department; Spain; February 5, 2008.

Available at [http://www.nextbillion.net/files/An%20overview%20of%20the%20Mobile%20Banking%20Industry%20by%20Manuel%20Bueno%20\(IE%20Teaching%20Note\)_0.pdf](http://www.nextbillion.net/files/An%20overview%20of%20the%20Mobile%20Banking%20Industry%20by%20Manuel%20Bueno%20(IE%20Teaching%20Note)_0.pdf)

Informing about the role of mobile phones in branchless banking, listing drawbacks and recommends policy and regulation for mobile banking.

(from John Borgoyary, UNDP, New Delhi)

A Little World in Microfinance and Technology—Critical Issues, Lessons and Future Implications

Paper; by Ramesh S. Arunachalam; Microfinance Consulting Group (MCG); 2007

Available at

http://www.microfinancegateway.org/files/44002_file_Microfinance_and_Technology_MCG2007.pdf

Describes an initiative that will provide people in rural areas access to banking services through mobile phones designed with radio-frequency identification cards.

A Lot in a Little Joint

Article; by Dinesh Narayanan and Pierre Mario; Business World; November 8, 2007

Available at <http://www.businessworld.in/content/view/2868/2947/>

Discusses how technology-assisted financial inclusion programmes (such as using mobile phones) have benefited migrant labourers by offering banking services, like micro savings.

(from Navin Anand, Resource Person)

Dr. Rangrajan Committee Report on Financial Inclusion

Report; NABARD; January 2008

Available at http://www.nabard.org/pdf/report_financial/Full%20Report.pdf

Chapter 10 deals with the remittance needs of the poor and gives examples of various international and national experiments with mobile phone banking.

Draft Report of High Level Committee on Financial Sector Reforms

Report; Dr. Raghuram Rajan; Planning Commission, Government of India; New Delhi; August 2007

Available at http://planningcommission.nic.in/reports/genrep/rep_fr/cfsr_all.pdf

Includes regulatory aspects related to branchless banking including mobile banking, and Chapter 3 gives examples from Kenya, the Philippines, South Africa and Brazil.

Regulating Transformational Branchless Banking: Mobile Phones and Other Technology to Increase Access to Finance

Note; CGAP Focus Note No. 43, January 2008

Available at

http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/FocusNote_43.pdf

Based on its assessments of policy and regulation in seven countries, provides information about current regulations on branchless banking including mobile phone banking.

Mobile Phones for Microfinance

Paper; CGAP Brief; April 2006

Available at <http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/Mobile-Phones-for-Microfinance-4.pdf>

Provides an overview of using mobile phones for micro-payments (m-commerce) and gives examples from countries, which were the forerunners in mobile phone banking.

Use of Agents in Branchless Banking for the Poor: Rewards, Risks and Regulation

Note; CGAP Focus Note No. 38; October 2006

Available at

<http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/FocusNote38.pdf>

Discusses issues involved in regulating branchless banking including mobile phone banking and examines the experiences in Brazil, India, South Africa, the Philippines, and Kenya.

Encourage a Bank Revolution by Mobile Phone

Article; by Swaminathan S. Anklesaria Aiyar; World Media

Available at <http://worldmedia.mobi/?p=268>

Gives an overview of mobile phone revolution in the context of mobile banking used on a small scale for deposits and remittances, and depicts benefits of mobile phone banking in the Indian context.

Safaricom and Vodafone Launch M-PESA: A New Mobile Payment Service

Article; Vodaphone; February 2007

Available at http://www.vodaphone.com/start/media_relations/news/group_press_releases/2007/safaricom_and_vodafone.html

Discusses the launch of M-PESA, an innovative new mobile phone payment solution that enables

customers to complete simple financial transactions by mobile phone.

(from Arun John, ICT for Development Community Intern)

Swiping Reforms

Article; by Amarnath K. Menon; India Today; January 28, 2008

Available at http://indiatoday.digitaltoday.in/index.php?option=com_content&Itemid=1&task=view&id=3657§ionid=21&issueid=37&page=archive.html

Inform about the use of mobile phones which can act as the branch of a bank and a biometric card reader for extended services.

Africa's Cell Phone Boom Creates a Base for Low-Cost Banking

Article; by Nicole Itano; The Christian Science Monitor; The Christian Science Monitor; August 26, 2005

Available at <http://www.csmonitor.com/2005/0826/p07s01-woaf.html>

Explains about a project to design a new banking system using pre-paid mobile services for the welfare of low income groups.

Mobile Phone Banking and Low Income Customers

Paper; by Gautam Ivatury and Mark Pickens; CGAP, United Nations Foundation and Vodafone Group Foundation

Available at <http://www.cgap.org/publications/mobilephonebanking.pdf>

Records how mobile phones are used for low income consumers in South Africa and examines the work of WIZZIT, a start-up mobile banking provider, reaching out to "unreached" customers.

Mobile Phones Revolutionise African Banking

Portal; by Briana Sapp; Inter Press Service; Inter Press Service; May 23, 2007

Available at <http://www.oneworld.net/article/view/149573/1/3356>

Recommends the use of mobile banking technology to deliver banking services to the poor in Africa, and examines providing microfinance services as an alternative to traditional banking.

Mobile Banking—Boon for Rural India

New article; by Leslie D'Monte; Rediff News; Mumbai; February 20, 2008

Available at <http://in.rediff.com/money/2008/feb/20mob.htm>

Inform about the use of mobile phones to provide banking services, such as paying wages and social security pensions in rural India.

M-Banking to Bank the Unbanked

Paper; by Shaker Ibne Amin; Frost and Sullivan; May 14, 2007

Available at <http://www.frost.com/prod/servlet/market-insighttop>.

[pag?docid=98655381&ctxixpLink=FcmCtx1&ctxixpLabel=FcmCtx2](http://www.frost.com/prod/servlet/market-insighttop.pag?docid=98655381&ctxixpLink=FcmCtx1&ctxixpLabel=FcmCtx2)

Explores the use of mobile banking in developing countries, gives a case study on the provision of microfinance services in Philippines.

Mobile Banking in Germany

Paper; by Eusebio Scornavacca and Hartmut Hoehle; School of Information Management, Victoria

University of Wellington, New Zealand

Available at http://project.hkkm.fi/helsinkimobility/papers/Mobile%20Applications_1_2.pdf

Explores the challenges, initiatives and mobile banking services in Germany; provides an investigation of m-banking services offered by the top 100 German banks.

Rural Banks in Philippines: Using Mobile Phones for Microfinance

Article; www.shareideas.org ; Mobile Knowledge for Social Change

http://www.shareideas.org/index.php/Rural_Banks_in_the_Philippines:_Using_Mobile_Phones_for_Microfinance

Informs about the use of mobile phones for microfinance in rural banks in Philippines, also looks at the use of a unique mobile payment platform called G-Cash.

(from Gitanjali Sah, Research Associate)

Microfinance by Mobile Phone

Newsletter; Development Challenges, South Solutions; UNDP; November 2006

Available at http://tcdc1.undp.org/enews/Nov2006_enewsletter.html

Recommends the use of mobile phones to reduce transaction costs of microfinance services; informs about mobile banking initiatives in Philippines and South Africa.

Maldives: World Bank Group Supports Mobile Phone Banking

Article; The Financial; April 4, 2008

Available at http://finchannel.com/index.php?option=com_content&task=view&id=10903&Itemid=10

Informs about a mobile banking project in Maldives, which aims to prove that remote areas can also have access to convenient, affordable financial services.

Increasing the Outreach and Sustainability of Microfinance through ICT Innovation

Paper; by Stuart Mathison; The Foundation for Development Cooperation (FDC)

Available at <http://www.fdc.org.au/Electronic%20Banking%20with%20the%20Poor/1%20Mathison.pdf>

Recommends the use of ICTs including, mobile phones to deliver financial services to poor households for them to manage their financial resources more effectively.

M-Banking

Concept Note; by Jaime García Alba, Robert Wilke Meins and Sergio Navajas; The Multilateral Investment Fund

Available at <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1328322>

Provides definition, objective, description of problem and justification for extending the reach of financial services through mobile payment systems.

Text Me a Tenner—Mobile Phone Banking Comes of Age

Article; by Steve Ranger; Financial Services; December 13, 2005

Available at <http://www.silicon.com/financialservices/0,3800010322,39154993,00.htm>

Informs that banks are now looking at mobile phones as a “fifth channel” to reach customers, along with branches, ATMs, internet and phone banking.

How Banking on a Mobile Phone can Help the Poor

Article; by Christine Bowers; World Bank Group; Foreign Policy; January 17, 2007

Available at <http://blog.foreignpolicy.com/node/3131>

Recommends using mobile phones to extend financial services to the poor and informs about M-banking initiatives in the Philippines, South Africa, Brazil and Kenya.

Recommended Organisations and Programmes

(from Vipin Kumar, Reliance Retail Ltd., New Delhi)

Smart Communications Inc, Philippines

Smart Tower, 6799 Ayala Avenue, Makati, Philippines 1226;

<http://smart.com.ph/Corporate/Newsroom/Smart>

ServicesHub.htm

Provides low cost remittance services using mobile phone-based financial services; enables mobile operators and banks to serve the remittance needs of migrant populations.

Travelex Money Transfer, United Kingdom

65 Kingsway, London, WC2B6TD United Kingdom; Tel: 44-0-20-7400-4000; Fax: 44-020-7400-4001; <http://www.travelex.co.uk/group/default.asp?lang=ENG>

Partner company of Smart Communications; helps serve the remittance needs of migrant populations using mobile phones.

(from Raghavender Anand, Mahasemam Trust, Madurai)

Asirvad Microfinance Private Ltd., Chennai

47, Whites Road, 1st Floor, Deshabandu Plaza, Royapettah, Chennai-600014, Tamil Nadu; Tel: 91-44-4351008/3; Fax: 91-44-28522960; asirvadmicro@yahoo.co.in; <http://www.asirvad.co.in/home.asp>

Works to integrate mobile phone technology into projects to provide innovative financial services in a sustainable manner to low income customers.

Snowwood Infocom Technologies Pvt. Ltd., Chennai

No 2, Kaveri Lane, East Tambaram, Chennai-600059, Tamil Nadu; Tel: 91-44-2239-1449; www.snowwood.com; Contact Srivathsan Vasudevan; vasu@snowwood.com

Provides mobile and web enabled microfinance solutions to organisations; specialising in enabling and distributing mobile networking technology.

XacBank, Mongolia

(from Pankaj Kumar Shrivastav, UNDP, New Delhi)

XacBank Building, Prime Minister Amar's Street, Sukhbaatar District, PO Box-46/721, Ulaanbaatar, Mongolia-210646, Tel: 976-11-318185; Fax: 976-11-328701; bank@xacbank.mn; www.xacbank.mn/

Community development bank and MFI that offers cash and non-cash banking services to its customers through mobile technology.

Wizzit-South African Bank of Athens, South Africa

(from Rahul Rawat, Self Help India, Dehradun)

4th Floor, South Tower, Nelson Mandela Square at Sandton City, Sandton, South Africa; Tel: 0681 (949948); wizzinfo@wizzit.co.za; www.wizzit.co.za
Offers a low cost transactional bank account to

customers using mobile phones for making person-to-person payment, transfers and pre-paid purchases.

(from Rama Devi, National Institute for Smart Government (NISG), Hyderabad)

National Institute of Smart Government, Hyderabad

Block B, IIIT Campus, Gachibowli, Hyderabad-500032, Andhra Pradesh; Tel: 91-40-23006683-84, 91-40-23002983-84; Fax: 91-40-23006085; <http://www.nisg.org/>

Evaluated a pilot project of the Andhra Pradesh Government that uses smart cards and mobile phones for disbursing social benefits (including financial services) to citizens.

(from John Borgoyary, UNDP, New Delhi)

BAXIS, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad 500001 Andhra Pradesh; Tel: 91-040-3051250091; Fax: 91-040-30512502; <http://www.basixindia.com/>

Livelihood promotion institution providing business development services, uses mobile banking to provide basic no frills banking services to poor migrant workers and low income consumers.

BASIX Bank Limited, Mumbai

131, Maker Tower-F, Cuffe Parade, Colaba, Mumbai-400005, Maharashtra; Tel: 022-6707-4407; Fax: 022-2218-6944/1429; www.axisbank.com

Along with BASIX, trying to provide banking services to poor migrant workers from Bihar living in Delhi; these labourers are being provided assistance in financial inclusion programme.

Qualcomm, Mumbai

The IL&ES Financial Centre, 6th floor, Quadrant C, Plot #22, G Block, Bandra-Kurla Complex, Bandra East, Mumbai-400051, Maharashtra; Tel: 91-22-67041400; Fax: 91-22-67041500;

<http://www.qualcomm.com/about/index.html>

Organisation provides menu driven information system implemented using mobile phone technology, to help villagers access locally relevant information, including microfinance services.

Paymate India Pvt Ltd, Mumbai

(from N. Jeyaseelan, Indian Bank, Madurai)

111, A-Wing, Sundervila, S. V. Road, Santacruz (W), Mumbai-400054, Maharashtra; Tel: 91-22-2661-6170/80; Fax: 91-22-2661-6190; contact@paymate.com

co.in; <http://www.paymate.co.in/web/Default.aspx>
Mobile banking services launched in India makes use of Short Messaging Service for banking; however their services are not targeted specifically for the poor.

(from Navin Anand, Resource Person)

Eko India Financial Services Private Limited, New Delhi

547 Mandakini Enclave, Alaknanda, New Delhi-110019, Tel: 91-11-26278267; Fax: 91-11-40533092

Work towards extending banking facilities in untapped/unbanked areas through existing branch network and new technologies (like mobile phones) in combination with outsourcing.

Safaricom Limited, Kenya

P. O. Box 46350, 00100 Nairobi, Kenya; Tel: 254-20-427-3272; www.safaricom.co.ke

Mobile communications has launched M-PESA, a new mobile payment solution that enables customers to complete simple financial transactions by mobile phone.

Recommended Portals and Information Bases

Mobile Payment Forum: A Joint Initiative by RTBI and IDRBT

(from N. Jeyaseelan, Indian Bank, Madurai)

<http://www.mpf.org.in/index.html>

Portal on the Forum established to enable payments via mobile phones in India, and to ensure it they are secure and low cost transactions; the first meeting was held in September 2007.

Private Sector Development Blog–Mobile Phone Banking Takes Off

(from Gitanjali Sah, Research Associate)

http://psdblog.worldbank.org/psdblog/2006/06/mobile_banking_.html

Provides information on mobile banking projects in Philippines, Africa, Kenya, Zambia and South Africa.

4



**Microfinance Technologies, Tools,
Processes and Systems**

Synthesis Paper 4

The enabling policy and institutional environment for microfinance deals with the aspects of conducive Acts, Laws and guidelines for the functioning and regulation of microfinance at one end. At the other, it concerns funding to microfinance institutions (MFIs), strategies and mapping at macro and micro levels and platforms which facilitates the networking and linkages between the different players of microfinance.

The Microfinance community initiated 12 discussions on these issues including a discussion on RBI's mobile phone payment guidelines. In the present context Microfinance Community of Practice also found important to discuss micro insurance, including the innovative concept of 'Health Mutuals' and, therefore, undertook six discussions which also covered regulatory aspects of micro insurance. These issues are covered in microfinance products, services and delivery mechanism. The objective to address financial inclusion agenda and fulfillment of poverty alleviation goals articulated in MDGs through change in policy and institutional environment has been a priority for the microfinance community.

Taking an overview of microfinance policy environment, and issues raised by the community members in different forums and Resource Group meeting, the proposal of microfinance bill 2007¹ was one of the most important policy initiatives to unify, standardize and consolidate the regulations in one framework with due consideration of legal entities of different microfinance players. The Government has yet to finalize and enact it. An analysis of the situation reveals the fact that the commercial banks, Regional Rural Banks, Cooperatives Banks, local area banks and other private banks, are covered under Banking Regulation Act and also RBI's regulations related to microfinance. The National Bank for Agriculture and Rural Development (NABARD) supervises and regulates the banks working in rural areas and also play a key role as promoter and wholesale financier for banks and MFIs for microfinance services. The Non-Banking Finance Companies (NBFCs) engaged in microfinance are being regulated by RBI however not-for profit companies

(Section 25 Companies) are complying with the Registrar companies Act and not regulated stringently by the RBI. The NGOs, Trusts and other not-for-profit institutions functioning as financial intermediaries are also out of the purview of the direct supervision of the RBI and waiting for the microfinance bill. In this scenario introduction of a suitable Microfinance Bill is the need of the sector.

Members of the community have also realized the importance of having a close review of the issue of microfinance and cooperative Acts. It is a fact that the regulatory scenario for Cooperatives, including Mutually Aided Cooperative Societies is more complex as each state has its own cooperative Act. These Acts vary in nature across the states. Few states like Uttarakhand have two Acts – the Self Reliant Cooperative Societies Act and also the pre-existing Cooperative Act. Still, these cooperatives functioning as MFIs are out of the purview of regulatory ambit of RBI. The Resource Group also realized the importance of this issue to be taken up in Microfinance Community of Practice.

The regulations for savings has due importance in the present scenario of microfinance on which community members discussed extensively. The present regulations restrict a variety of MFIs such as NBFCs, NGO-MFIs for taking savings from the public. If NBFCs are permitted to mobilize savings, the resources can be utilized to provide financial services to the vulnerable sections of people at affordable interest rates. The Microfinance India - State of the Sector Report 2008² clearly informs the regulator's perspective of not permitting numerous small institutions to mobilize savings in order to give protection to poor considering factors like interest rates, continued availability of credit, quality of service and security of savings. RBI has introduced Business Correspondent (BC) model so that through banks, adequate safety to the deposits of poor is provided. Recently, RBI has allowed BC to appoint sub-agents thereby addressing financial inclusion agenda. The community has elaborated well on the legal aspects of savings mobilization in the discussions and also contributed for state of the sector report.

¹ Ministry of Finance, The Micro Financial Sector (Development And Regulation) Bill, 2007 (Bill No.41 of 2007) placed in Lok Sabha, New Delhi, 2007

² Srinivasan, N., Microfinance India - State of the Sector Report 2008. New Delhi: Sage Publications, 2008, pp.101-107

Remittances services have become important for the MFIs dealing with migrant labour and people living in remote areas. This demands a clear regulation related to the technologies and mechanisms for it. Community members identified mobile phone banking as an effective medium for remittance services and also contributed in finalization of RBI's guidelines³ on mobile banking transactions by sharing knowledge and experiences in a specific discussion. RBI's clear guidelines will facilitate MFIs to accelerate mobile banking activity for faster financial inclusion.

Funding arrangements to the microfinance institutions (MFIs) is an issue external to microfinance core environment. The Community assessed various funding models and arrangements such as a 'Debt funding model', 'Partnership Model' and funding arrangements used by apex government institutions and socially motivated venture capitalists. These models differ on the extent of sharing of risks by the funding institutions, form of financial support like bulk loans, grants, quasi equity, equity capital and loan guarantee funds. Some provide additional support for capacity building and setting up operational management systems. Community provided information on funding options and the benefits.

The connecting platforms which facilitate the funding agencies, Social Entrepreneurs/MFIs and the investors to meet for networking and collaborations, strengthen the external support environment of MF. Members of the community identified such platforms that can act as 'Financial Solution Exchanges' which reduce the transaction costs for social entrepreneurs and investors, and provide distinctive knowledge to help funding agencies and microfinance institutions (MFIs)/NGOs satisfy their unique needs. Mapping of the microfinance scenario based on different parameters is extremely relevant today in context of financial inclusion. Community members prudently visualized the parameters such as client outreach, credit demand and loans disbursed; district-wise income, education, population density, poverty levels of the households; availability of NGOs, MFIs, SHGs, Government programmes on microfinance, lending models, SHGs-bank linkages, credit deposit ratios and people covered under insurance programmes, etc., so as to use the information for the strategising and mapping district-wise microfinance plans.

Need for sustainable organizational structures at various levels in different states and their linkages

with a national level body to create a 'web of sustainable networks' has already been identified by the microfinance practitioners. Many of the Self-help Promotion Institutions/MFIs including Government promoted institutions formed federations at different levels for a variety of purposes such as - Filling up of financial and non-financial need gaps; creating a 'self-sustaining community based systems' for poverty alleviation, microfinance and women empowerment; and also as a part of withdrawal strategies. Discussing SHG federations and the issue of undertaking multiple functions, the Community emphasized that federations need to enable true empowerment of women by using a holistic approach. NABARD incorporated federations as potential beneficiaries of microFinance Development and Equity Fund (mFDEF)⁴ thereby confirming its support for the development of federation system of SHGs. The Community is also discussing aspects of a National federation of SHGs regarding its establishment, possibilities of funding, role and functions of the National Advisory Council, Legal entity of the federation and sustainability.

Retention of human resources in microfinance sector is important in the competitive microfinance environment, therefore, an incentive system and retention strategies for MFI staff are required. To strategise at the macro level, the Community suggested that assessment of the HR needs can be done through a diagnosis, using data from an appropriate sample of MFIs as well as feedback from industry leaders.

On the basis of an analysis of the issues discussed and the unanswered questions related to policy and institutional environment, the community will keep its focus on the Microfinance Bill, National federation of SHGs and revision of Cooperative Acts for Microfinance. RBI has taken steps to create a framework for money lending and legitimize its operations under controlled conditions. Since money lending is a state subject and state legislatures can legislate on the subject, a draft Money Lending Act has been developed for the use of state Governments. The Microfinance community would take up such issues in the discussion forum. Other areas of the community's concern would be 'Fair Trade' practices in microfinance and regulations for 'Health Mutuals' and savings services. The Community also plans to focus on the issues like credit information bureau and innovations which strengthen the microfinance structure and external support environment.

³ RBI, Mobile Banking Transactions in India - Operative Guidelines for Banks, RBI, Mumbai, 2008

⁴ NABARD, Circular on scheme for capital/equity support to microfinance institutions from MFDEF, 2007

I.
***Monitoring and Evaluation of Microfinance
Programmes and Projects***



Consolidated Reply

Query: Impact Assessment of Microfinance Initiatives, from SAMPARK, Bangalore (Experiences)

Compiled by Sumeeta Banerji, Resource Person; additional research provided by Sachin Kumar, Research Associate

Issue Date: 28 November, 2006

Original Query: Smita Premchander, SAMPARK, Bangalore

Posted: 9 November, 2006

Microfinance practitioners have time and again identified impact assessment as a critical need to justify the huge investment in the sector and to ensure that microfinance initiatives make the intended impact on the ground. Several organisations have conducted impact assessments, however, these studies assess specific programmes of MFIs or donors, and there are almost no comprehensive impact assessments of microfinance initiatives within a geographic region (District or a State) and no cross model comparisons.

Sampark as a resource organisation is often called upon to advise its partners designing microfinance interventions and to explain which inputs lead to which positive/negative impacts. Sampark has studied over 50 impact assessment reports, of which 27 are from experiences in India. Attached at the link <http://www.solutionexchange-un.net.in/mf/cr/res25110601.doc> is a table of the programmes covered in these studies.

There is very rich information in studies that exist within organisations, which have been conducted by the staff, or some visitors' reports, and these have insights into inputs which give positive impacts, and which steps may actually be disempowering for women. I would request that we share and pool these experiences on impact of microfinance initiatives and lessons learned through Solution Exchange. So, I want to know from members about:

- Your experiences on positive or negative impacts of microfinance on key aspects like poverty reduction, women's empowerment, sustainability of MFI or any other aspects.

- Are there any internal or consultant reports that you would like compiled with the attached list? What are the methodologies that your staff and consultants used for conducting these studies?

This would be a practical experience that would be very valuable in guiding new and emerging initiatives in this growing sector, so I urge you to share your experiences.

Responses were received, with thanks, from

1. Sayantan Bera, Jawaharlal Nehru University, New Delhi
2. Keerthi Kumar, Centre for Micro Finance, Chennai
3. Satya Prakash Choubey, Centre for Micro Finance, Chennai
4. Sachin Bansal, Centre for microFinance, Jaipur
5. G. Bhaskara Rao, APMAS, Hyderabad
6. Rati Tripathi, Centre for Micro Finance, Chennai
7. Teki Surayya, National Institute of Financial Management, Faridabad
8. Abhilash G. Mudaliar, UNITUS, Bangalore
9. Debadutta Kumar Panda, MP Associates, Bhubaneswar
10. Nirmala Buch, Mahila Chetna Manch, Bhopal

Further contributions are welcome!

Summary of Responses

In response to the query, members shared field based experiences and relevant studies on impact assessment of microfinance initiatives. Members noted that institutions undertake impact studies at their level of microfinance initiatives and provide useful data, but very few meet standards of rigorous statistical evaluation. Members shared at length about different kinds of approaches for conducting impact studies, while cautioning appropriate selection of study methodology in order to avoid under or over estimation of microfinance impact on the well-being of the clients. They also highlighted some low cost and efficient tools, which have been designed to help development practitioners measure impacts.

Respondents stressed the need to include qualitative indicators to measure the impact of microfinance initiatives along with quantitative indicators. They felt that most impact assessments focused on changes in quantitative aspects of the community. Thus, the study does not capture other intangible changes like social awareness, values of financial discipline etc. due to weak qualitative indicators to measure these changes.

Impacts of Microfinance

Members felt that microfinance has played a positive role in the alleviation of poverty by increasing access to financial services and strengthening livelihood opportunities. One of the members shared an impact study, which largely found positive outcomes in terms of increased household income, increased food security by overcoming sickness, diseases, emergencies etc.

Impact Assessment Methodologies: Majority of the members shared their views on the methods of impact assessment study and referred various primary and secondary reports on impact study conducted across India and other countries. Members highlighted broadly three methods of impact assessment:

- The first approach tries to study the borrower's condition with and without microfinance. It selects and compares a "control group" of non-participants with programme participants or the "treatment group." However, members also noted some limitations of this method. Microfinance clients may have initial advantages over non-borrowers in terms of wealth, income, health and education status, and entrepreneurial capabilities. Households, which are comparatively

well off, might "self-select" themselves in microfinance programmes. A study substantiated this, which found that households, which later become microfinance clients tend to be already significantly wealthier than their non-borrower neighbours do. Non-borrowers may choose not to participate because they feel that they cannot generate adequate profits to repay the loans. Due to these self-selection biases, comparing borrowers and non-borrowers could lead to an over-estimation in the impact of microfinance on borrower well-being.

- The second approach compares "old borrowers" with "new borrowers." This approach assumes that all borrowers are at the same socio-economic level at the time of joining the microfinance programme and share similar characteristics. Other limitations of this approach are that if the timing of mature borrowers' entry was due to unobservable attributes like ability, motivation and entrepreneurship, then such comparisons can do little to address the selection biases.
- The third approach is the randomise experiment approach which requires that the impact study be started at the time of initiating microfinance operations in a new area.

Members cautioned that for all the above methods, there are some assumptions and hence each method has limitations. In terms of measuring the impact of specific microfinance products, members felt this was difficult if the MFI has different variants in the product, particularly concerning repayment structure and interest rates, for e.g., we can not compare the impact of weekly loans with daily or monthly loans. Another constraint highlighted by members was that MFIs modify products to smoothen recovery problems and could undergo several modifications during the course of a study, making calculation of long-term impact of a specific product difficult.

While evaluating microfinance initiatives, members recommended including a focus on changed consumption patterns apart from increased income. This is because evidence shows that a bulk of loans in SBLP goes towards consumption needs, and the impact studies do not capture the benefits of using this as low interest loan. In spite of limitations in various impact assessment approaches, members emphasised that MFIs need to inculcate the habit of conducting regular, but low cost studies to enable an understanding of impact of the programme on client

households and help design improved products and services, both financial and non-financial.

Some members shared a concern about the lack of scientific rigour in impact assessments and appropriate skills in conducting the same. In addition, there is a need for comprehensive guidelines for data collection, compilation of a basic set of data that MFIs could collect, and methodologies for impact assessments.

Finally, respondents noted that while improvements in data collection and analysis will certainly improve the quality and reliability of impact assessments, there are inherent limitations in assessing the economic impact of any intervention. They stressed that given the multitude of other factors at play, it is impossible to be able to say with certainty that access to microfinance is what has led to improvements in people's lives. One view was that instead of seeking to appease critics by conducting impact assessments alone, organisations providing financial access to the poor need to focus on their mission and quality of services.

Comparative Experiences

Andhra Pradesh

New Tool to Evaluate Access to Credit

(from Keerthi Kumar, Centre for Micro Finance, Chennai)

Centre for Micro Finance along with the Poverty Action Lab is conducting an impact study on Spandana's (a Hyderabad based MFI) micro-credit programme. Unlike other impact studies, they are using the randomise experiment method for the first time in microfinance sector to evaluate 50 control and 50 treatment areas in and around Hyderabad. The study is analysing the effect of different microfinance models and products on the socio-economic status of the clients.

Capturing Information on Use of Loans for Consumption Expenses

(from G. Bhaskar Rao, APMAS, Hyderabad)

In West Godavari district, agriculture labourers collect dry coconut leaves while coming back from day labour, and then they make brooms at home to sell. One SHG of agriculture labourers received Rs. 100,000 worth of loans which was too much for this activity, so they used the money for consumption purposes instead of borrowing for consumption from a moneylender at high interest rate. Impact studies did not capture crucial information on resultant net savings.

Microfinance through SHGs for Micro Entrepreneurship

(from Teki Surayya, National Institute of Finance Management, Faridabad)

The Indian Institute of Forest Management conducted a study of an SHG in Vishakhapatnam district. SHG members pooled their savings of Rs. 20,000, bank loans for Rs. 30,000 and a Rs. 20,000 grant from the forest department (total of Rs. 70,000) to run an enterprise focusing on value addition to rice and chilly crops. The study found that through this enterprise, the SHG members were able to provide employment to 10 families.

Rajasthan

PEDO Helping SHG Members for Better Life and Increased Self-Esteem

(from Sachin Bansal, Centre for microFinance, Rajasthan)

The Centre for microFinance designed a SHG impact study for PEDO, a SHG promoting NGO working with over 20,000 families in Dungarpur district. Using questionnaires and focus group discussions as tools, the study pointed towards the positive outcome of SHG programmes in terms of increased income and food security, helping families deal with sickness and emergencies, etc.

Related Resources

Recommended Organisations

From Sayantan Bera, Jawaharlal Nehru University, New Delhi

United States Agency for International Development, New Delhi

American Embassy, Chanakypuri, New Delhi-110 021, Tel: 91-11-24198000; Fax: 91-11-24198454; <http://www.usaid.gov/in/index.htm>; www.usaidmicro.org/pubs/aims

Under its AIM project, USAID designed low cost and efficient impact assessment tools, both quantitative and qualitative.

Institute of Development Studies, Sussex

University of Sussex, Brighton, East Sussex BN1 9RE, United Kingdom; Tel: 44-01273-873-733; Fax: 44-01273-621-202/691-647; Imp-Act@ids.ac.uk; <http://www.ids.ac.uk/impact>

Institute for research, training and communications on international development, has developed an 'Imp-Act' tool for assessing the social impact of microfinance services.

Centre for Micro Finance, Chennai

(from Keerthi Kumar)

24, Kothari Road, Nungambakkam, Chennai; Tel: 91-44-28273801, Fax: 91-44-28279208; <http://www.ifmr.ac.in/cmfm>

Organisation focusing on empirical research evaluating the impact of access to microfinance services, besides offering consulting services and holding training for MFIs.

Satya Prakash Choubey, Centre for Micro Finance, Chennai

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Tel: 91-40-30512500/1; Fax: 91-40-30512502; info@basixindia.com; <http://www.basixindia.com/arc.asp>

Livelihood promotion institution; besides providing microfinance and technical services, conducts applied research on livelihoods and impact studies on microfinance sector.

CARE India, New Delhi

27, Hauz Khas Village, New Delhi-110016, Tel: 91-11-26566060/4101; Fax: 91-11-26564081/29671; cbox@careindia.org; www.careindia.org; <http://www.careindia-microfinance.org>

International NGO which initiated a large microfinance initiative in India called Credit and Savings for Household Enterprises (CASHE).

Centre for microFinance, Jaipur (Sachin Bansal, Centre for microFinance, Jaipur)

C/o IIMR, 1, Prabhu Dayal Marg, Near Sanganer Airport, Jaipur-302011, Tel: 91-141-2791431-34; Fax: 91-141-2792138; cmf@iihmr.org, info@cmfraj.org; www.cmfraj.org

Nodal agency for Sakh se Vikas-the Rajasthan microfinance initiative of the Sir Ratan Tata Trust, acts as a knowledge and support centre for microfinance stakeholders.

Andhra Pradesh Mahila Abhivruddhi Society, Hyderabad

(from G. Bhaskara Rao, APMAS, Hyderabad)

Plot No. 20, Rao and Raju Colony, Road No. 2, Banjara Hills, Hyderabad-500034, Tel: 91-40-23547927/52 Extn. 50; Fax: 91-40-23547926; mshr@apmas.org or mshr2508@apmas.org; <http://www.apmas.org> (28/11/06 under construction)

State level technical support institution providing capacity building, quality rating, research and advocacy services to SHGs and others in microfinance sector.

(from Nirjala Buch, Mahila Chetna Manch, Bhopal)

Centre for Women's Development Services, New Delhi

25, Bhai Vir Singh Marg (Gole Market), New Delhi-110001, Tel: 91-11-23365541; Fax: 91-11-23346044; cwds@vsnl.net or cwds@cwds.org; www.cwds.org

Autonomous research institution involved in fundamental and applied research on women and development including impact of microfinance on the well-being of women.

Rashtriya Mahila Kosh, New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 91-11-23354619; Fax: 91-11-23354621; ed_rmk@nic.in; <http://www.rmk.nic.in>

Acts as a wholesaler in microfinance sector and also commissions studies on the poverty impact assessment of microfinance.

(from Sachin Kumar, Research Associate)

EDA Rural Systems, Gurgaon

602 Pacific Square, 32nd Milestone NH8, Gurgaon-122 001, Tel: 91-124-2309493/707; Fax: 91-124-2309520; contact@edarural.com; www.edarural.com

A development consultancy, whose research and impact assessment wing conducts poverty assessment, longitudinal studies and social audit of microfinance programmes.

Abdul Jameel Latif Poverty Action Lab, Cambridge

E60-256, 30 Memorial Drive, Cambridge, MA 02142, USA; Tel: 617-324-0108; Fax: 617-253-5461; povertyactionlab@mit.edu; www.povertyactionlab.com

Development research organisation engaged in impact study of microfinance programmes using randomised experiment approach.

Recommended Documentation

(from Sayantan Bera, Jawaharlal Nehru University, New Delhi)

Microfinance in Northeast Thailand: Who Benefits and How Much

By Brett E. Coleman; Working Paper Series No. 9, Economics and Research Department, Asian Development Bank, Manila; April 2002 http://www.adb.org/Documents/ERD/Working_Papers/wp009.pdf

Report evaluates the outreach and impact of two microfinance village bank programmes that target the poor in Thailand.

Microfinance Impact Assessments: The Perils of Using New Members as a Control Group

By Dean S. Karlan; Yale University Department of Economics; November 21, 2001

<http://aida.econ.yale.edu/karlan/papers/impactperils.pdf>

Paper discusses the limitations of using SEEP/AIMS tools developed by USAID under AIMS project for impact assessment of microfinance.

Microfinance and Poverty: Evidence Using Panel Data from Bangladesh

By Shahidur Khandker; World Bank Policy Research Working Paper 2945; January 2003

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=636307#PaperDownload

Paper addresses the poverty impact of microfinance using household level panel data from Bangladesh

The Economics of Microfinance

By Armendáriz de Aghion and Jonathan Morduch; MIT Press; 2005

<http://mitpress.mit.edu/catalog/item/default.asp?ttype=2&tid=10494>

Book aims to bring about convergence between economic theory and practice, assessing the impact of microfinance, avenues for improving the outreach, etc.

Measuring the Impact of Microfinance: Taking Stock of What We Know

By Nathaneal Goldberg; Grameen Foundation USA Publication Series; December 2005

<http://www.grameenfoundation.org/pubdownload/~pubid=29>

Paper surveys the most significant microfinance impact evaluations published as of mid-2005 and guides readers through interpreting results and reliability of each study.

Is Microfinance a 'Magic Bullet' for Women's Empowerment? Analysis of Findings from South Asia

By Naila Kabeer; Economic and Political Weekly; October 29, 2005 (free registration required)

<http://www.epw.org.in>

Article examines the empirical evidence related to the impact of microfinance on poverty reduction and women empowerment.

Social and Economic Impacts of PRADAN's Self Help Group Microfinance and Livelihoods Promotion Programme: Analysis from Jharkhand, India

By Naila Kabeer and Helzi Nojonen; Imp-Act Working Paper No.11; March 2005

Report outlines findings from a socio-economic impact study of PRADAN's SHG-microfinance and livelihood programme carried out in Jharkhand.

Use of Randomisation in the Evaluation of Development Effectiveness

(from Keerthi Kumar, Centre for Micro Finance, Chennai)

By Esther Duflo and Michael Kremer, Prepared for World Bank Operations Evaluation Department, 2003

http://courses.washington.edu/proganal/duflo_Kremer.pdf

Paper discusses current evaluation practices and their limitations, and recommends randomise evaluation method as a way to address the limitations of current methods.

PEDO's SHG Programme Impact Assessment

(from Sachin Bansal, Centre for microFinance, Jaipur)

Centre for microFinance, Jaipur; 2006

http://www.cmfrj.org/Pedo_Impact_Report.pdf

Study aimed to understand the impact of SHG programme on the socio-economic conditions of the SHG members.

Assessing the Impact of Microfinance as a Tool for Adoption of Appropriate Technology and Conserving the Environment (with specific reference to NWFP)

(from Teki Surayya, National Institute of Financial Management, Faridabad)

By B. P. Pethiya and S. Teki; Indian Institute of Forest Management, Bhopal

<http://www.solutionexchange-un.net.in/mf/cr/res25110602.doc>

Study designed to investigate how microfinance can provide impetus to the forest dwellers for value addition in non-wood forest produce.

(from Rati Tripathi, Centre for Micro Finance, Chennai)

Microfinance in India: A State of the Sector Report, 2006

By Prabhu Ghatge, a joint initiative of CARE and Ford Foundation, 2006

<http://microfinanceindia.org/Docs/Sector%20Report.pdf>

The report gives an overview of the progress made by SBLP and MFI model, commercial and developmental aspects of microfinance, issues relating to microfinance.

The Impact of Microfinance: A Review of Methodological Issues

By Dean Karlan and Nathanael Goldberg, August 05, 2006

http://www.econ.yale.edu/karlan/downloads/WB_methodology_paper_aug7.pdf

The paper provides types of microfinance impacts and policies that can be evaluated, reviews evaluation methodologies and common indicators of impact.

Impact Studies of the MFIs done by SAMPARK

(from Smita Premchander)

By Sampark, Bangalore

<http://www.solutionexchange-un.net.in/mf/cr/res25110601.doc>

It gives a list of MFI's impact studies done by Sampark all across India, Bangladesh and other countries.

Recommended Websites

SHG Gateway (from G. Bhaskara Rao, APMAS, Hyderabad)

www.shgateway.in

Website to be launched by APMAS, designed to provide information on SHGs including outreach, quality and poverty impact.

Centre for Micro Finance (CMF)

(from Keerthi Kumar)

<http://ifmr.ac.in/cmfp/publicity-materials>

Site provides a list of studies done by CMF on the various aspects of microfinance in the form of case studies, working papers including current ongoing impact study of microfinance.

(from Sachin Kumar, Research Associate)

MicroLinks–Micro enterprise Learning Information and Knowledge Sharing

http://www.microlinks.org/ev02.php?ID=2463_201&ID2=DO_TOPIC

Knowledge sharing website, includes publications related to application of AIMS tool while conducting impact assessment.

CASHE–Credit and Savings for Household Enterprise

<http://www.careindia-microfinance.org/publicationcashe.asp>

Care India studies done in the field of microfinance including power point presentations on impact assessment study.

EDA Rural Systems

http://www.edarural.com/projects_research_impact_assessment.html

Link provides a list of impact studies done in the field of micro enterprise and microfinance.



Consolidated Reply

Query: Collecting Evidence of Impact of Microfinance—Experiences

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issue Date: 27 September, 2007

From Smita Premchander, Sampark, Bangalore

Posted: 6 September, 2007

Dear Members,

All of you know that as microfinance has proliferated in India, and many microfinance delivery models have emerged, there has been more and more discussion on its ground level impact. Impacts have been seen in terms of increased incomes, as also access and control over money, decision making within the family, participation in community level decision-making, leadership in PRIs and other aspects of women's empowerment.

Many of these positive impacts assigned to microfinance, however are based on anecdotal evidence, or simply belief, with few scientific and longitudinal studies conducted in India. A query floated last year, brought out a detailed discussion on impact assessment methodologies (<http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-25110601.doc> for the Consolidated Reply). There were, however, fewer examples of impact studies. The grounded evidence available remains very thin.

At a time preceding the fourth Microfinance Conference held in October 2007, I would like to request members to send in evidence of impact. Specifically, I would like to know:

- Has the impact of the microfinance operations of your organisation been studied? If so, please share a copy of the report, and share the major aspects studied (e.g. income, empowerment, decision making and other aspects), and the major findings.
- If there has been no formal study, but you have informal reports and documents that you wish to share, please share these.

- If you are a consultant who has conducted impact assessments, kindly share the information on these, and wherever possible, please send the reports, or the contacts of the organisations who can send the report.
- If you are a donor or sponsor organisation, and you have commissioned impact studies, please share these with the group.

This information will be collated by Sampark, along with other information already with us, and presented at the Microfinance Conference's session on impact, and the presentation will also be shared with members of the Microfinance Community. With this, we hope to push the debate on the impact of microfinance to systematic and grounded realms. This would then help the microfinance sector in India, to introspect and devise strategies to build on our strengths and address weaknesses.

Responses were received, with thanks, from

1. Prabhat Labh, CARE India, New Delhi
2. Jai Pal Singh, Centre for microFinance, Jaipur
3. Nilanjana Dasgupta, Purba Medinipur, West Bengal
4. Girija Srinivasan, Consultant, Pune
5. Delphine Chouvet, Swabhimaan, Pune
6. Maria Sathya, International Labour Organization (ILO), New Delhi
7. Prameela, Sampark, Bangalore (*Response 1*;

Response 2)

8. Ramesh Arunachalam, Microfinance Consulting Group, Chennai
9. Baladeb Sen, Independent Consultant, Chennai (*Response 1; Response 2*)
10. Debadutta K. Panda, MPAssociates, Bhubaneswar
11. N. Jeyaseelan, Microfinance Consultant, Madurai (*Response 1; Response 2*)
12. Frances Sinha, EDA Rural Systems, Gurgaon
13. Janakiraman N., DHAN Foundation, Madurai
14. Malay Dewanji, Liberal Association for Movement of People (LAMP), Kolkata
15. Subrat Kumar Singhdeo, Madhyam Foundation, Bhubaneswar
16. Kamal K. Tripathy, Ministry of Food Processing Industries, Government of India, New Delhi
17. T. Asaithambi, Dhan Foundation, Madurai

Further contributions are welcome!

Summary of Responses

Responding to the query on collecting evidence of the impact of microfinance members shared a wealth of impact assessment reports conducted by organisations and consultants as well as those commissioned by donors. Respondents also shared their experiences carrying out impact assessments and views on the importance of studying the effects of microfinance activities to improve quality of services and social performance of MFIs.

Discussants felt impact assessment studies are most relevant and necessary for start-up MFIs lending to SHGs or MFIs deciding to engage in direct lending for livelihood promotion or enterprise development, particularly as a mid-course correction strategy and for resource allocation. Drawing on their experiences studying the impact of microfinance, members observe that a range of factors are necessary to help low income people combat the risks and vulnerabilities they face in accessing finance, where microfinance addresses one aspect of their vulnerability by overcoming imperfect financial markets and putting financial resources in the hands of the poor. Additionally, they noted that many impact studies are not quantitative or statistically significant, and only provide case studies of experiences.

Members brought to light various studies that reveal the impact microfinance has had on the lives

of the poor and marginalised. One study looked at the impact of microfinance interventions in the prevention of bonded labour in Nepal and Pakistan, finding that poverty, instability of income flows, and lack of access to institutional credit are some of the main reasons why people fall into bondage. The study also showed how microfinance is an effective socio-economic empowerment tool for populations vulnerable to bonded labour. Another case shared were the findings of an in-depth exploratory study commissioned to analyse the dimensions of SHG experiences using a small sample of SHGs promoted by NGOs, banks and the Government in Orissa. Others includes a paper with impact studies conducted on an NGO's microfinance operations in West Bengal, Orissa and Andhra Pradesh and an impact assessment report carried out on a microfinance operation in Rajasthan.

While conducting impact assessments, members found that there is a general lack of benchmark information in most of the cases, which makes it difficult to measure the impact. Additionally, they highlighted that in many cases, there is no clarity on the desired impact or indicators. However, they stressed that if an organisation implements a microfinance programme for SHGs well, it does have a very positive impact on women in terms of both their empowerment and economic development of members' family.

Participants also shared studies conducted by external evaluators. One was of a microfinance programme in Kolkata that sought to identify the advantages and limitations of microfinance in the efficient construction of individual/household autonomy (economic, social, and cultural) over the long-term, along with providing several case studies demonstrating the impact of the microfinance programme. Another study mentioned went beyond the traditional impact assessment format to analyse the costs of promoting and deepening financial inclusion in Orissa.

Recognising the importance of understanding the impact of microfinance operations, discussants shared their preparatory documents to design a thorough impact assessment of their microfinance operations. They also shared informal documentation gathered through focus group discussions with SHG members on how they perceived the impact of microfinance and the changes they experienced in their lives because of joining the SHG. On a similar note, another

impact study found that members of SHGs were less dependent on moneylenders in comparison to non-microfinance clients.

Looking at the range of microfinance services available, respondents mentioned a study, which examined the trends and issues in the access to agricultural finance and assessed microfinance as an innovative credit delivery mechanism. Such studies, they felt could help to address the limitations that exist in the microfinance sector today.

Finally, participants warned microfinance practitioners and impact evaluators against forgetting the broader socio-economic and political undercurrents, and the macro-level policies being adopted by the Government at the central and state levels, which all affect the effectiveness of microfinance interventions. They also cautioned that losing perspective will have a negative impact on the momentum and strength of the nation wide microfinance movement. Additionally, members observed that most studies are conducted on SHGs formed and facilitated by reputed NGOs, which are few as compared to the huge number of SHGs formed by state governments, Panchayats, cooperative societies (like in West Bengal), and the increasing number of NGOs working as chit funds, which lacked proper facilitation. Therefore, they stressed the importance of conducting an in-depth study to identify the right interventions for this type of SHG (with very limited resources and workforce).

Discussants advised those studying impact of microfinance to examine the factors that contribute to reducing risk/vulnerability in a holistic manner. Such factors include addressing imperfect markets for raw materials/produce/products and facets of livelihood systems (including various infrastructure and market-oriented production), which are critical to sustainable livelihoods. Without addressing these factors, members argued it would be futile to expect microfinance interventions to deliver what is currently expected.

Comparative Experiences

Rajasthan

(from Jai Pal Singh, Centre for MicroFinance, Jaipur)

Creating Impact in the Lives of SHG Members

The People's Education and Development Organisation (PEDO) requested an independent impact evaluation of their SHG programme, with the findings to be reported to the PEDO board and staff to assess whether the

programme had the desired effect on individuals, households and communities. The initial results highlighted that SHG members reported that having savings accounts in their name gives them confidence and increased a sense of self-respect.

Studying the Impact to Improve Services and Operation Efficiency, Udaipur

Hanuman Van Vikas Samiti (HVVS) commissioned an independent assessment of their microfinance operations to better understand the effects of their programmes on client households and to help in designing better microfinance services and products (particularly complimentary non-financial services to maximise socio-economic impact). The study found as a result of the programme that the decision-making power of SHG members had increased.

Tamil Nadu

Sustainable Microfinance Leads to Positive Impact on Clients, Usilampatti

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

The experience and impact assessment of Indian Bank's Special Unit for Microfinance (IBSUM), Usilampatti branch, has shown that credit coupled with capacity building, technology transfer and commercial linkage facilitation leads to sustainable microfinance operations and a positive impact on clients. As for institutional impact after IBSUM started, the branch's SHG outstanding loan compared to the branch outstanding loan was 41 percent in comparison to 0.6 percent before IBSUM.

West Bengal

Field Observations of Impact of Microfinance

(from Nilanjana Dasgupta, Purba Medinipur, Kalyani)

The organisation Purba Medinipur's field experience revealed that the SHG movement generally covers very poor members, and market interest rates have reduced. However, SHGs are becoming polarised under political umbrellas and relationships with PRIs are yet to gain momentum. Additionally, it was found that while income has increased, it has not reduced poverty levels and that livelihood (other than credit) support was very limited.

International Nepal

From Maria Sathya, International Labour Organization (ILO), New Delhi

Using Microfinance for Socio-economic Empowerment of Bonded Labourers

ILO's Prevention and Elimination of Bonded Labour in South Asia (PEBLISA) project offered microfinance to all project beneficiaries. As a result, 39 percent of the beneficiaries were able to use their loans to start small businesses; 36 percent used their loans to manage household expenses; and 13 percent to purchase buffaloes for farming. Before the project, all beneficiaries depended on the advances from their employers and now only 12 percent do.

Pakistan

Increased Access to Productive Resources to Reduce Debt Bondage

The Prevention and Elimination of Bonded Labour in South Asia (PEBLISA) project of ILO sought to provide access to productive resources to reduce the level of vulnerability communities faced due to debt. As a result, 91 percent of the borrowers indicated an improvement in their personal and household income after starting enterprises using the micro-credit offered by PEBLISA. Additionally, households are now able to spend more on food, improving the amount of protein intake.

Related Resources

Recommended Documentation

(from Prabhat Labh, CARE India, New Delhi)

Perspectives from the Field: The SHG Experience and Quality Assessment

Study; by Mr. Brian Gurski; CARE India; New Delhi; December 2005

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090703.doc>

Exploratory study on dimensions of SHG experiences in microfinance, with a small sample of SHGs promoted by NGOs, banks and the Government in Orissa.

Impact Study of the CASHE Microfinance Programme

Study; by Mr. Prabhat Labh; CARE India; New Delhi

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090704.doc>

Paper based on the impact study carried out by Sampark of CARE's microfinance programme, CASHE in Orissa.

(from Jai Pal Singh, Centre for microFinance (CmF), Jaipur)

PEDO SHG Programme Impact Assessment

Study; Centre for microFinance (CmF); Jaipur

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090701.pdf>

Impact assessment of the SHG promoting agency, PEDO (People's Education and Development Organisation) in Dungarpur, Rajasthan conducted by CmF.

Programme Impact Assessment of HVVS

Study; Centre for microFinance (CmF); Jaipur

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090702.pdf>

Studies the social and economic impact of the microfinance programme of Hanuman Van Vikas Samiti (HVVS) on SHG members' households to improve microfinance services and products.

Impact Diagram

(from Delphine Chouvet, Swabhimaan, Pune)

Diagram; Swabhimaan; Pune

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090705.doc>

Diagram outlining the decision making process for the impact study of its microfinance operations; to be conducted in 2008 by UpLift India Association.

(from Maria Sathya, ILO, New Delhi)

Project Evaluation of PEBLISA (Prevention and Elimination of Bonded Labour in South Asia) – The Pakistan Component

Report; the Collective Action for Social Advancement Team, ILO Sub-regional Office; New Delhi; January 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090706.doc>

Discusses the impact of microfinance services on extremely poor families living under the threat of debt bondage in the areas surrounding Hyderabad, Pakistan.

Impact Assessment and the Final Evaluation of Prevention and Elimination of Bonded Labour in South Asia (PEBLISA): Nepal Chapter

Report; by Shiva Sharma and Ram Sharma, in association with Purusottam Baral and Chirinjibi Pathak; ILO; Nepal; February 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090707.doc>

Discusses the impact of microfinance services for extremely poor families living under the threat of debt in Nepal.

(from Prameela, Sampark, Bangalore)

From Bondage to Freedom: ILO PEBLISA's (Prevention and Elimination of Bonded Labour in South Asia) Experience in South Asia

Study; by Smita Premchander, V. Prameela, M. Chidambaranathan and Benjamin Laroquette; Conducted by Sampark and published by International Labour Organization (ILO); April 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090708.pdf>

Consolidated report of the impact assessments of the PEBLISA projects in Nepal, Pakistan, Bangladesh and India which reached out to women through microfinance services.

List of Impact Studies Conducted/Reviewed by Sampark

Database; Sampark; Bangalore

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090711.doc>

Resource listing several impact studies that have been either conducted or reviewed by Sampark relating to the microfinance sector.

Women's Empowerment through SHG Revolution in Orissa

(from Debadutta K. Panda, MP Associates, Bhubaneswar)

Study; by Mr. Debadutta K. Panda; MP Associates; Bhubaneswar; 2005

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090709.doc>

Study analyses the impact of SHG membership on women in Orissa through case studies.

Transforming the Lives of the Poor from Bitter to Better

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Study; by Mr. N. Jeyaseelan; Indian Bank's Special Unit for Microfinance; Usilampatti; 2005

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090710.doc>

Study conducted to understand the impact of microfinance services provided by in Usilampatti.

The Maturing of Indian Microfinance

(from Frances Sinha, EDA Rural Systems, Gurgaon)

Executive Summary; Conducted by EDA Rural Systems; Commissioned by SIDBI Foundation for MicroCredit; September 2004

Available at <http://www.edarural.com/impact/execsums.pdf>

The study presents the findings of a microfinance baseline impact assessment study and provides implications for policy and practice.

(from Malay Dewanji, Liberal Association for Movement of People (LAMP), Kolkata)

Do Microfinance Services have a Positive Impact on the Poor?

Study; by Ms. Nancy Ibarra; Comissioned by Liberal Association for Movement of People (LAMP); Kolkata; August 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090714.doc>

Study of the impact of LAMP's Microfinance and Livelihoods Programme; the report identifies the advantages and limitations of microfinance in promoting individual/household socio-economic autonomy.

Microfinance as Development Pathway: Whether and How?

Proposal; by Ms. Nancy Ibarra; Comissioned by Liberal Association for Movement of People (LAMP); Kokata; August 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090712.doc>

Study proposal for the impact study of LAMP's Microfinance and Livelihood Development Programme.

Do Microfinance Services have a Positive Impact on the Poor?

Study; by Ms. Nancy Ibarra; Comissioned by Liberal Association For Movement of People (LAMP); Kolkata; August 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090713.xls>

Questionnaire for the study of the impact of LAMP's Microfinance and Livelihood Development Programme.

Costs to Promote and Deepen Financial Inclusion: A Case of Three Year Intervention in Orissa, India

(from Subrat Kumar Singhdeo, Madhyam Foundation, Bhubaneswar)

Report; by Mr. Subrat Kumar Singhdeo; Madhyam Foundation; Bhubaneswar

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090715.doc>

Report captures experiences of three-year intervention by Centre for Youth and Social Development, examining the costs of promoting/

deepening financial inclusion, including through microfinance.

Self-Help Groups in India: A Study of the Lights and Shades

(from Girija Srinivasan, Consultant, Pune)

Study; Conducted by EDA Rural Systems in Association with APMAS; 2006

Available at <http://www.edarural.com/documents/SHG-Study/Executive-Summary.pdf>

An in-depth study of SHGs in India which focuses on the social impact and covers the financial aspects of economic empowerment as well, such as microfinance.

Trends and Issues in the Access to Agricultural Finance in India: Review of Microfinance as an Innovative Credit Delivery Mechanism

(from Kamal K. Tripathy, Ministry of Food Processing Industries, Government of India, New Delhi)

Paper; by Mr. K. K. Tripathy and Professor S. K. Jain; Indian Institute of Technology (IIT); New Delhi; 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/res06090716.pdf>

Appraises the implementation of the government-run microfinance model towards increasing access, efficiency and cost effectiveness in financing credit to the rural poor.

Recommended Organisations and Programmes Kalanjiam Foundation, Madurai

(from Janakiraman N)

21, Pillaiyar Koil Street, S.S. Colony, Madurai, Tamil Nadu-625016; Tel: 91-452-2610794/4256/8949, 2610805; Fax: 91-452-2602247; kalanjiam@sancharnet.in; <http://www.dhan.org/kcbp/frames.html>

Thematic institution promoted by DHAN Foundation, and has conducted an impact assessment of microfinance through its Kalanjiam Institutions.

People's Education and Development Organisation (PEDO), Dungarpur

(from Jai Pal Singh, Centre for MicroFinance, Jaipur)

Mada Village, Bicchiwara Block, Dungarpur District, Rajasthan-314001; Tel: 02964-261128; Fax: 02964-261129; http://www.barefootcollege.org/profiles/pedo/ORGANISATION_PROFILE12-7-2006.pdf

NGO providing microfinance services to 1,000 SHGs in marginalised communities; impact study finds

that members report more confidence and self-respect as a result of being an SHG member.

Recommended Portals and Information Bases Social Performance Resource Centre, The Microfinance Gateway

(from Frances Sinha, EDA Rural Systems, Gurgaon)

http://www.microfinancegateway.org/resource_centres/socialperformance/

Platform for those in the microfinance industry who see a double bottom line as intrinsic to expanding financial services to the poor and ensuring impact; lists resources and training opportunities.

Recommended Training Courses

(from Anjum Khalidi, Research Associate)

Imp-Act International Training of Facilitators Course, Imp-Act Consortium, Washington, D. C., USA

October 29, 2007 to October 31, 2007. Information available at http://www.microfinancegateway.org/resource_centres/socialperformance/_training; Imp-Act@ids.ac.uk

Training of facilitators for auditing and strengthening Social Performance Management (SPM), including how to analyse internal/external needs for SPM.

Training of Trainers (ToT) in Social Performance Management (SPM), Imp-Act Consortium, Washington, D.C., USA

October 29, 2007 to November 2, 2007. Information available at http://www.microfinancegateway.org/resource_centres/socialperformance/_training; Imp-Act@ids.ac.uk

Prepares participants to deliver the Imp-Act SPM training course in order to guide MFI managers through the process of defining the framework for designing an SPM system.

Related Consolidated Replies

Impact Assessment of Microfinance Initiatives, from Smita Premchander, SAMPARK, Bangalore (Experiences). Microfinance Community. Issued 28 November, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-25110601.doc>

Captures experiences on the diverse impacts of microfinance and shares tools, studies and methodologies on impact assessment of microfinance.



Consolidated Reply

Query: Social Performance Strategies for MFIs–Experiences

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate
Issue Date: 30 October, 2007

From Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur
Posted: 21 September, 2007

Dear members,

I work with the Evangelical Social Action Forum (ESAF) as a Senior Manager in the Social Performance Management (SPM) Unit. The capacity of microfinance for poverty reduction has been debated and there are many agreements and disagreements. The important contributions that many of the MFIs made towards poverty reduction and human development must be acknowledged. However, unfortunately the competition developed in recent days in the microfinance sector has significantly undermined the social goals of microfinance activities. It may be a surprise to see many MFIs offering microfinance services as a pure business activity (often equivalent to a 'Micro Bank'). These operations focus more closely on the profitability side and social components are more or less excluded in the conventional profitability measurement of MFIs since financiers are often bothered only of profitability. In such a scenario, social rating of MFIs is gaining popularity and importance. Development practitioners look into these rating, to consider the social impact of financial operations of MFIs. It has even become important to sensitise MFIs on the social goal of providing financial services to be more cautious towards social monitoring of financial operations.

ESAF is in the process of working out standards for our various operations including credit operations keeping in mind both economic and social goals of finance provision and the organisation as a whole. This is to make our various operations more socially viable and feasible. I would request members to share their experience and views on:

- Experiences on measuring the social profitability of MFIs (specifically, which indicators to use?).

- Suggestions on how to make MFIs socially responsible along with meeting the profitability standard of the donors? What have been the experiences of members with putting in place social performance norms in financial policies/practices at the financier's level.
- Experiences on how to make social performance and economic viability complimentary.
- Experience with broader issue based financing (Sectoral Financing/Group Lending) instead of individual lending as a strategy for strengthening social performance of microfinance.

I am in the process of formulating a social policy document for ESAF and would appreciate your valuable suggestions. All contributions would be duly acknowledged. May I thank you in advance for your contributions.

Responses were received, with thanks, from

1. Perwinder Singh Bhatia, Indian Institute of Management, Bangalore
2. Anjum Khalidi, United Nations, New Delhi
3. J.S. Tomar, Cashpor Micro Credit, Varanasi
4. L.B. Prakash, Akshara, Hyderabad (Response 1, Response 2)
5. G.K. Agrawal, Formerly with NABARD, Mumbai
6. Girija Srinivasan, Consultant, Pune
7. Kuldeep Singh, NABARD, Dehradun
8. G.V. Krishnagopal, Access Livelihoods Consulting India Private Limited, Secunderabad

Further contributions are welcome!

Summary of Responses

Responding to the query on social performance management for MFIs, members shared a wealth of knowledge and resources on measuring social performance, the role of donors, and the challenge of achieving sustainability while maintaining one's social mandate.

Members discussed the factors involved in social performance such as managing results or impact of one's services, understanding client needs, and reporting to external stakeholders. They elaborated further that a SPM system involves; 1) setting clear social goals and objectives; 2) collecting information to monitor progress towards these objectives; and 3) using social performance information to improve operational and strategic decision-making.

One of the main challenges of SPM is how to measure social performance and sustainability of an MFI, and what indicators to use. Members shared guidelines on how to evaluate the extent to which an organisation is meeting their social objectives. Members highlighted social ratings which have been pioneered in India. The poverty audit is another such tool which provides guidelines for determining the depth of outreach and poverty impact of MFIs. Other tools have been developed such as the SPM Audit which was piloted in the Philippines, and is used to establish the status and effectiveness of an organisation's SPM system, providing tangible evidence of the extent to which social performance is being effectively managed and indicates where improvements are needed.

Members shared international experiences from Bosnia which demonstrated how social performance information can be used by MFIs to institutionalise their learning to improve their services and address issues such as high drop out rates and retention of professional staff.

Respondents also outlined parameters which can be used for measuring social impact including:

- Measurement of reduction in income inequalities in the region and in relative poverty index.
- Improvement in income distribution pattern and living standards in the region.
- Drudgery reduction of poor families (particularly women and children).
- Optimum utilisation of natural resources.
- Addition of new economic dimensions/opportunities (technological, economic and social).

While discussing the role of donors and putting social performance norms into place, members discussed how some years ago financial sustainability was the main objective of donors and therefore indicators mainly focused on financial performance. However, in recent years, donors have shifted their attention to social performance and impact. This was exemplified by the various awards and other initiatives donors had started to offer to recognise and reward the efforts of MFIs who are actively putting their systems in place to monitor and improve social impact along with financial efficiency. Members felt that donors can play a crucial role in ensuring social performance standards of the MFIs particularly when they provide incentives for the MFIs to provide socially responsible microfinance services. Participants also shed light on the intrinsic link between financial inefficiency and social performance where inefficiencies of operations are often passed on to the clients. Thus, MFIs can make social performance and economic viability complementary if proper regulatory systems are in place, in addition to encouraging more competition in the sector which will improve standards and services. Furthermore, members observed that institutions that are community-owned are better able to reduce costs by mobilising their own resources, maintaining their own accounts and decentralised management systems, thereby reducing operational costs and losses. Members further suggested studying the model of Velugu and Pawla Vaddi in Andhra Pradesh as it deals with the question of whether better pricing leads to the growth of the sector and better social performance.

At the MFI level, members pointed out that much depends on the strategic direction of the Board of Directors and founder members. Some MFIs have established very good policies and practices which combine the social and financial objectives due to the leadership of the Board of Directors.

Regarding the debate between broader sectoral/group financing vs. individual lending as a strategy for strengthening social performance, members felt that sectoral financing or group lending seems to offer a better scope for strengthening social performance of an organisation as it often allows for better results in transparency and empowerment. Furthermore, members elaborated that the profile of clients in the individual lending model seem to be predominantly non-poor, as most individual lending MFIs require asset-based collateral. Group lending or sectoral financing offers greater scope for empowerment, social action and

change in the community while the individual lending would affect the individual status only.

The discussion illustrates the renewed focus on social impact by MFIs and donors alike and provides the framework for institutionalising social performance. The resources and insights shared would help MFIs to monitor their social impact better and report mechanism in order to ensure that they achieve sustainability while making an impact in the lives of the poor.

Comparative Experiences

India

Social Rating Agency for MFIs

Micro-Credit Ratings International Ltd. is one of the first credit rating agencies to conduct social ratings of MFIs. Their analysis includes the MFI's operating environment, services, client data, etc. in addition to looking at whether the MFI's systems are in place to achieve its social mission. The rating also covers social responsibility to its clients, social goal outreach (depth and breadth) in underdeveloped areas, range of services and evidence of impact.

International

Bosnia and Herzegovina

Institutionalising Organisational Learning for Enhanced Social Performance

(from Anjum Khalidi, Research Associate)

The MFI Prizma its poverty outreach in the Bosnian post-war context and reasons for its high organisational drop out rate. As a result, Prizma has made fundamental changes to the way it works by instituting a more flexible system of loan repayment and instituting staff incentives based on poverty outreach targets. Prizma has enhanced social performance by institutionalising organisational learning and deepening poverty outreach.

Philippines

Social Performance Management (SPM) Audit

(from L.B. Prakash, Akshara, Hyderabad)

A pilot SPM audit was conducted with AgroInvest, Montenegro by anton Simanowitz while the second pilot was with Ahon sa Hiras, Inc. (ASHI) Philippines. The SPM Audit is a tool which can be used to establish the status and effectiveness of an organisation's SPM

system, providing tangible evidence of the extent to which social performance is being effectively managed and indicates where improvements are needed. The audit is primarily intended to be an internal tool to help organisations review and improve their SPM systems.

Related Resources

Recommended Documentation

Social Rating of Cashpor Micro Credit

(from J. S. Tomar, Cashpor Micro Credit, Varanasi)

Rating; by Micro Credit Ratings International; Gurgaon; August 2005

Available at <http://www.solutionexchange-un.net.in/mf/cr/res21090701.pdf>

The document details the social rating given to Cashpor Micro Credit by Micro-Credit Ratings International (M-CRIL) for its microfinance services to the poor.

(from Perwinder Singh, Indian Institute of Management, Bangalore)

Guidelines for Planning the Implementation of Social Performance Measures

Social Performance Centre; Microfinance Gateway

Available at http://www.microfinancegateway.com/resource_centres/socialperformance/_mfis/_planning

Lists steps MFIs need to take into consideration when planning at the establishment of the organisation to align its social mission with the institution's financial considerations.

Social Performance Assessment

Social Performance Centre; Microfinance Gateway

Available at http://www.microfinancegateway.com/resource_centres/socialperformance/_mfis/_assessing

Provides guidelines on how to evaluate the extent to which organisations meet their social objectives.

Institutionalising Social Performance

Social Performance Centre; Microfinance Gateway

Available at http://www.microfinancegateway.com/resource_centres/socialperformance/_mfis/_institutionalising_social_performance

Provides guidelines on how social performance information should be used by the MFI and key ways to institutionalise this information.

Donor Role in Social Performance Management Social Performance Centre; Microfinance Gateway

Available at http://www.microfinancegateway.com/resource_centres/socialperformance/_donors_investors/donors

Discusses how to conduct a social audit, commission a social rating and how to develop reporting indicators and help MFIs maximise their social performance.

(from Girija Srinivasan, Consultant, Pune)

CGAP (Consultative Group to Assist the Poor) Poverty Audit Tool

Tool; by CGAP; Washington DC;

Available at http://www.cgap.org/docs/poverty_audit.pdf

Provides guidelines for determining the depth of outreach and poverty impact of MFIs.

Building Bridges between the Poor and the Banking System: A Study of Sanghamitra Rural Financial Services

Study; by Professor M. S. Sriram; Sir Ratan Tata Trust and Indian Institute of Management, Ahmedabad; June 2004

Available at <http://www.iimahd.ernet.in/~mssriram/Sanghamitra.pdf>

Document traces the growth of Sanghamitra and details its operations, providing insight to those committed to achieving sustainability while ensuring social impact.

(from Anjum Khalidi, Research Associate)

Scoring Change: Prizma's Approach to Assessing Poverty

Microfinance Centre (MFC) Spotlight Note #4; by Mr. Michal Matul and Sean Kline; Imp-Act, Prizma and The Microfinance Centre; November 2003

Available at http://www.ids.ac.uk/impact/publications/joint_publications/MFC_SN4.pdf

Outlines the approach Prizma has taken to assess the poverty level of its clients and monitor change in this status over time in the form of a poverty score card.

Measuring Social Performance

Article in Microfinance Matters, Issue 15; by Mr. Marc Jacquand; UNCDF; August 2005

Available at http://www.uncdf.org/english/microfinance/pubs/newsletter/pages/2005_08/news_measuring.php

Discusses the challenges of SPM and how social performance data should be used.

Social Rating and Social Performance Reporting in Microfinance

Report; by Ms. Frances Sinha; Micro-Credit Ratings International Ltd.; Argidius Foundation; 2006

Available at <http://www.m-cril.com/pdf/Framework-for-Social-Performance-Rating-and-Reporting.pdf>

Highlights initiatives taken on social performance to develop a framework for social rating and an indicative list of indicators for social performance reporting in microfinance.

Recommended Organisations and Programmes

Micro-Credit Ratings International Limited (M-Cril), Gurgaon

(from J.S. Tomar, Cashpor Micro Credit, Varanasi)

602 Pacific Square, 32nd Milestone NH8, Gurgaon-122001, Tel: 124-230-9497; Fax: 124-230-9520
contact@m-cril.com; <http://www.m-cril.com/social-rating-microfinance-institutions.html>

One of the first credit rating agencies in the world to offer a social rating service to help MFIs improve their systems to achieve their social objectives.

Imp-Act Consortium, UK

(from Anjum Khalidi, Research Associate)

The Institute of Development Studies, University of Sussex, Brighton, East Sussex BN1 9RE, United Kingdom; Tel: +44 (0)1273 873 733; Fax: +44 (0)1273 621 202/691 647
Imp-Act@ids.ac.uk; <http://www.ids.ac.uk/impact/consortium/index.html>

A global group of organisations working to promote and support the management of social performance MFIs.

Recommended Communities and Networks

Imp-Act Social Performance Management (SPM) Network, Imp-Act Consortium

(from Anjum Khalidi, Research Associate)

<http://www.ids.ac.uk/impact/network/index.html>;
Imp-Act@ids.ac.uk

Platform for sharing good practices and resource that support organisations in developing, improving and using their SPM systems.

Recommended Portals and Information Bases

Social Performance Centre, Microfinance Gateway

(from Perwinder Singh, Indian Institute of Management, Bangalore)

http://www.microfinancegateway.com/resource_centres/socialperformance/

Provides practical resources for MFIs and donors committed to a double bottom line of building sustainable institutions and reaching the poor.

Recommended Training Courses

(from Anjum Khalidi, Research Associate)

Imp-Act International Training of Facilitators Course, Imp-Act Consortium, Washington, D. C., USA

October 29, 2007 to October 31, 2007. Information available at http://www.microfinancegateway.org/resource_centres/socialperformance/_training; Imp-Act@ids.ac.uk

Training of facilitators for auditing and strengthening SPM, including how to analyse internal/external needs for SPM.

Training of Trainers (ToT) in Social Performance Management (SPM), Imp-Act Consortium, Washington, D.C., USA

October 29, 2007 to November 2, 2007. Information available at http://www.microfinancegateway.org/resource_centres/socialperformance/_training; Imp-Act@ids.ac.uk

Prepares participants to deliver the Imp-Act SPM training course in order to guide MFI managers through the process of defining the framework for designing an SPM system.

II. ***Management Tools and Technologies for Microfinance***



Consolidated Reply

Query: Over-borrowing from Multiple MFIs–Advice

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issue Date: 29 June, 2007

From Arabinda Sinha, Sarala, Kolkata

Posted: 11 June, 2007

Dear Forum Members,

Sarala Women's Welfare Society, an eleven-month-old MFI is currently operating in four branches in Greater Kolkata area and has provided small loans to about 7,000 women. Greater Kolkata is the economic growth centre of West Bengal and naturally several other MFIs operate in the same area.

As per our disclosure norms, although Sarala requires full disclosure from its loan applicants regarding their borrowing history, we found that a significant number of them are borrowing from multiple MFIs. Although we respect the poor client's right to access multiple debt sources, we all know that when some clients over-borrow and are unable to meet the repayment requirements, they, their family, the involved institutions, and the microfinance sector at large sometimes faces disastrous consequences. We, therefore propose the following measures to reduce the risk of over-borrowing: insert one sentence in the loan application where the client declares that he/she has not taken a loan from another institution; voluntarily exchange client lists with institutions that work in overlapping areas; apex organisations, development banks, commercial banks and equity investors make it a condition for giving a loan/grant/equity to their partners that the MFI protects itself by agreeing to exchange client lists with neighbouring MFIs; and microfinance associations, like Sa-Dhan, encourage its members to share client lists.

Sarala is eager to exchange client lists with neighbouring MFIs so that we can better evaluate the client's ability to carry the multiple repayment installments. This is difficult to implement – while lending institutions have an obligation to obtain full financial disclosure from the borrowers, they are also obligated to maintain client's privacy. We would like to seek advice from members of the microfinance community, on:

- What are some of the practical ways by which an MFI can ensure that the poor client is able to access multiple debt sources just like anybody else, while preventing over-borrowing?
- In an atmosphere of competition among the MFIs, would sharing of client lists be a feasible measure?

I would greatly appreciate advice and experiences of community members in dealing with the issue of over-borrowing by clients in order to promote a more healthy sector as well as improving our operations and delivery of services.

Responses were received, with thanks, from

1. Pradip Har, CREDITWATCH, Kolkata
2. Jai Pal Singh, Centre for microFinance, Jaipur
3. Kedareshwar Choudhury, Darbar Sahitya Sansad, Orissa
4. Soma K. P., Gender and Development Consultant, New Delhi
5. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai

6. Baladeb Sen, Microfinance Consultant, Gurgaon
7. Abhilash G. Mudaliar, UNITUS, Bangalore
8. Raman V. Machiaju, Elitser IT Solutions India Pvt. Ltd., Hyderabad
9. Pon. Aananth, HDFC Ltd., Erode
10. N. Jeyaseelan, Indian Bank, Madurai
11. Anjum Khalidi, United Nations, New Delhi

Further contributions are welcome!

Summary of Responses

New challenges are emerging as microfinance services rapidly expand across the country. Responding to the query on the problem of over-borrowing, members stated that the inability of institutions to identify multiple borrowings is the primary challenge to preventing clients from over extending themselves and offered potential solutions to address the problem, such as sharing information. Along with discussing the possibility of sharing borrower information, respondents discussed the larger issues, which cause borrowers to take multiple loans.

Observing that a major challenge to preventing over-borrowing is the information asymmetry that exists between lenders and borrowers, respondents argued that without complete information on the credit-worthiness of borrowers, MFIs may contribute to over-indebtedness of their clients as well as damage their performance.

Another challenge, members noted was instances when clients need to take multiple loans because the loan size offered by local MFIs does not meet their credit needs. For example, an individual could need substantial credit to restore or acquire an asset, and group lending is often inadequate to meet these requirements. Another situation cited is when SHG members take multiple loans to acquire a lease on forestlands to provide raw material for forest-based activity. These cases, respondents stressed, illustrate the obstacles facing microfinance clients when they have financial requirements that they cannot fulfil through one source.

To address the problem of information asymmetry, members mentioned several practical ways MFIs could facilitate information sharing while supporting their clients and building the capacities of MFI/NGO staff. One suggestion was for large sub-district level programme, banks/project agencies need to convene

coordination meetings with partner NGO staff and examine their branch-based operations to reduce overlapping, like BSUM in Tamil Nadu.

Respondents also highlighted the need for a credit information bureau in the micro-credit sector (where some NGOs are working) and recommended integrating such a bureau into the now functional Credit Information Bureau India Limited (CIBIL). In addition, MFIs would also allow poor clients to build up a proper credit history, which they can use as collateral.

Additionally, discussants highlighted that many large MFIs tend to be concentrated in the same areas, continuously putting funds, thereby leading to a situation where 'over-lending' may become a problem. Therefore, members recommended sharing of client information and warned institutions against 'playing it safe' and only expanding in already served areas. Further, respondents advised conducting a thorough assessment of the demand and supply market in a particular area by analysing the existing service providers.

Discussing the systems' aspects of sharing information, respondents felt that sharing of client information would only be feasible if there were appropriate software solutions to facilitate the process. They added that the lack of a comprehensive, low cost and transparent Management Information System (MIS) solution is also a serious issue. Members stressed that without a common system, different models and individual institutions would continue to overestimate the number of clients.

Respondents also mentioned other technology-related requirements necessary for effective sharing of client information:

- Region-wise classification of borrowers between small and medium sized MFIs, so they can pool resources to share web-based software solutions to manage client information and highlight untapped markets.
- Member identification process using biometric cards to ensure security and transparency.
- IT-based system for sharing relevant client information amongst MFIs with proper filters and for creating MIS reports to monitor and evaluate credit-worthiness.

Along with discussing information sharing, members discussed measures that institutions could take to address the root cause of over-borrowing. They suggested institutions re-evaluate their loan

assessment processes, introduce flexibilities in lending terms, improve facilitation with borrowers to work out a feasible repayment plan, and provide capacity development inputs to enable women to maximise their returns (as stronger micro enterprises would better enable their repayment of loans).

Participants also highlighted the need to offer appropriate loan products and mechanisms such as community revolving loan funds and products that may reduce over-borrowing by better identifying and serving the needs of the borrowers. Members observed that in urban areas where the clients' repayment capacity is high and the loan amounts offered by MFIs are small, clients tend to look for loans to match their repaying capacity. In some such cases, clients openly disclose their borrowings from other MFIs and cite the inadequate loan amount offered by an MFI as the reason for approaching other MFIs. However, the risk of default is far higher in urban areas, and consequently, the challenge of building high quality portfolios by MFIs is very difficult, respondents noted.

Finally, members pointed out that in the long-term, institutions will need to expand their business models by taking challenging decisions, and developing new and appropriate loan products will reduce risk more than by only sharing information.

Comparative Experiences

Tamil Nadu

(from N. Jeyaseelan, Indian Bank, Madurai)

Effective Strategy to Address Issue of Overlapping Borrowers

To address the issue of overlapping borrowers, IBSUM has begun to convene monthly meetings of all field staff of its 18 NGO partners to discuss the risk of overlapping, new group formation/selection and financing risky members. The Usilampatti branch also started taking members' photographs with account opening forms. This has brought to light many overlapping cases and the meetings help staff to successfully address the issue.

Multiple States

NABARD-GTZ Sponsored Grameen Tatkal to Reduce Overborrowing

NABARD launched a household cash flow-based lending scheme, which ensures the sanctioning of loans for rural households within seven days. Its aim is to meet the urgent needs of farmers, including consumption needs for marriages, ceremonies, healthcare, education related expenses, etc. The Bank is implementing the

scheme as a pilot project through cooperatives and Regional Rural Banks in eight states.

Developing Flexible Loan Products to Reduce the Need to Overborrow

(from Soma K. P., Gender and Development Consultant, New Delhi)

Some organisations use 'community revolving funds,' providing flexible repayment schedules, to reduce borrowers' need to take loans from multiple MFIs. Using this model, loans are repaid by communities in a 4-6 years, and when there are droughts or other calamities, repayment tend to take longer. Because it was a community-based model, members have an incentive to repay since it replenishes their individual resources and creates a community revolving resource for emergencies.

Related Resources

Recommended Organisations

Credit Information Bureau India Limited (CIBIL), Mumbai

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai)

Hoechst House, 6th Floor, 193 Backbay Reclamation, Nariman Point, Mumbai-400021, Maharashtra; Tel: 022-6638-4600/2281-7788; Fax: 022-6638-4666; <http://www.cibil.com/>

Incorporated in 2000, CIBIL provides comprehensive credit information, including details pertaining to credit facilities already availed of by a borrower as well as his payment track record,

Planet Finance India, Gurgaon

(from Abhilash G Mudaliar, UNITUS, Bangalore)

T-22/10, DLF Qutub Enclave, Phase III, Gurgaon-122002, Haryana; Tel: 124-4061861-62-63; Fax: 124-4064160; http://www.planetfinance.org/documents/EN/DP_PF_EN.pdf

As part of its activities to develop the microfinance sector, Planet Finance plans to create credit bureaus to reduce clients' overborrowing.

Citibank, Mumbai

(from Raman V. Machiaju, Elitser IT Solutions India Pvt. Ltd., Hyderabad)

7th Floor, C-61, Bandra Kurla Complex, G Block, Bandra (E), Mumbai-400051, Maharashtra; Tel: 91-22-4001-5757; <http://www.citigroup.com/citigroup/>

citizen/microfinance/index.htm

Citibank supports several global, regional and local microfinance organisations around the globe to achieve greater client outreach and scale, and promotes smart cards to improve efficiency.

Recommended Documentation

Experian, PlaNNet Finance to Promote Credit Bureau Projects

(from Abhilash G Mudaliar, UNITUS, Bangalore)

Moneycontrol India; June 13, 2007

Article argues that introducing a credit bureau to store and share information about borrowers will enable MFIs to make more reliable decisions about lending applicants.

(from N. Jeyaseelan, Indian Bank, Madurai)

Grameen Tatkal Scheme Implementation in December

The Hindu; November 19, 2006

<http://www.hindu.com/2006/11/19/stories/2006111902030300.htm>

Article announces the launch of the NABARD-GTZ, Grameen Tatkal scheme that will seek to provide loans more quickly to meet the needs of borrowers and thereby reduce overborrowing.

Indian Bank's Special Unit for Microfinance

Business Line Article, The Hindu; July 28, 2004

<http://www.blonnet.com/2004/07/28/stories/2004072802101900.htm>

Article covers the launch of IBSUM which work with SHGs and farmers; the bank has also taken active measures to address the issue of over-borrowing.

Community-Managed Loan Funds: Which Ones Work?

(from Soma K. P., Gender and Development Consultant, New Delhi)

Consultative Group to Assist the Poor (CGAP), Focus Note No. 36; May 2006

Document describes successful case studies of community revolving funds as an example of flexible loan products to suit the needs of borrowers to reduce the need to 'over-borrow'.

Citibank India Unveils Biometric ATM with Multi-Language Voice Navigation Features for Microfinance Customers

(from Raman V. Machiaju, Elitser IT Solutions India Pvt. Ltd., Hyderabad)

Citibank New York Press Room; December 1, 2006
<http://www.citigroup.com/citigroup/press/2006/061201d.htm>

Press release on a pilot project using a biometric card, with BASIX and Swadhar, to promote transparency and sharing of borrower information to address over-borrowing among microfinance clients.

(from Anjum Khalidi, Research Associate)

Credit Information Systems for Microfinance—A Foundation for Further Innovation

By Valerie Rozycki; Centre for Micro Finance Working Paper Series; June 2006

http://www.ifmr.ac.in/pdf/workingpapers/13/v_rozycki_june_2006.pdf

Global survey and case study analysis highlighting current practices around sharing credit information as well as the barriers to developing a system of sharing.

Microfinance and the Market for Credit Information in El Salvador

By Tom Lenaghan; Development Alternatives, Inc., Maryland, USA; March 2001

http://www.microfinancegateway.org/files/3383_file_03383.pdf

Provides an overview of the market for credit information in El Salvador and evaluates the factors affecting the integration of microfinance information and MFIs into this market.

Credit Bureaus: Leveraging Information for the Benefit of Micro-enterprises

By Elinor Haider; Inter-American Development Bank, Microenterprise Development Review, Vol. 2 No. 2; January 2000

<http://www.iadb.org/sds/doc/2156ENG.pdf>

Discusses how credit bureaus can help solve the problem of the information asymmetry financial institutions face; such a bureau can help to improve the sector's regulation and governance.

Dimensions and Dynamics of MFI Competition in Bangladesh

Consultative Group to Assist the Poor (CGAP)

In an attempt to address the issue of over-borrowing, the study maps microfinance client concentration at the sub-district level and explores the dynamics of MFI competition.



Consolidated Reply

Query: Identifying Technology Services Needs for the Microfinance Sector–Advice

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issue Date: 12 July, 2007

From Dhruv Joshi, Ekgaon Technologies Pvt. Ltd., New Delhi

Posted 25 June, 2007

Dear Community members,

Ekgaon Technologies works to assess, develop and provide technology support to the microfinance sector both for finance management, rural credit delivery and techno/management service support to widen the reach and increase the profitability of the portfolio.

The microfinance sector in India has been evoking keen interest by the larger international financial institutions and equity funds. However, the requirement of services by different categories of institutions: bulk lenders, banks, direct lenders (MFIs, NGOs working as MFIs), etc are not yet known and understood. Once these are known and documented, support services can be developed and standardised for the sector.

We are currently working on a study to identify the requirements for services by different types of institutions working in the microfinance sector, such as banks, development finance institutions, NGOs working in the micro-credit sector, NBFCs (Non-Banking Financial Companies), insurance companies and other types of MFIs.

To this end, your knowledge and experience would be very much appreciated and would aid in our understanding the needs of the sector more objectively. Specifically:

- What technology solutions are needed in the microfinance sector for accounting and auditing systems, IT-based operations management

solutions, MIS, and other areas that could improve operational efficiency?

- What solutions are currently available in these areas?
- What are the major challenges faced in introducing technology solutions?

Your inputs would be very much appreciated and would aid in our understanding the needs of the sector more objectively. This would lead to the standardisation and mainstreaming of the provision of technology support services in the sector. All contributions from members will be acknowledged explicitly in the research report and in any final service/service delivery framework developed by Ekgaon Technologies.

Responses were received, with thanks, from

1. Kris Dev, Life Line to Business, Chennai
2. Rohit Raina, ICICI Bank, Mumbai
3. Baladeb Sen, Microfinance Consultant, Gurgaon (Response 1; Response 2)
4. Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad (Response 1; Response 2; Response 3)
5. R. Raghavender Anand, Mahasemam Trust, Madurai
6. Agrawal G. K., National Bank for Agriculture and Rural Development (NABARD), Mumbai
7. Brij Mohan, Small Industries Development Bank of India (SIDBI), New Delhi

8. Navpreet Singh, Nidaan Samaj Sevi Samiti, Gwalior
9. Suvarna Gandham, Manaveeya Holdings, Hyderabad
10. Kanti Kiran, CATALYST, Mumbai
11. Kartikay Rai, Intellectap, Mumbai

Further contributions are welcome!

Summary of Responses

Responding to a request from a technology service provider seeking inputs on the technology needs of the microfinance sector, members identified solutions needed to improve the operational efficiency of MFIs, and shared experiences and challenges faced in implementing existing software solutions. Respondents discussed how the evolution of the sector has led to a greater demand for standardised reporting, monitoring and other measures to support operational efficiency in the sector. They elaborated that as MFI client outreach grows, increasingly there is a need to move from manual reporting mechanisms, to those based on the use of available technology and other optimum IT solutions.

Discussants emphasised the importance of understanding the needs of stakeholders at various levels of the microfinance value chain (from Government and banks to MFIs and clients) before trying to design or implement technology-based solutions. Regulators/Apex institutions and Governments are concerned primarily with transparency, accountability, growth, performance, sustainability, and sharing of best practices. Banks, donors and investors, members noted, tend to focus on institutional transparency and accountability, returns (financial and social), and reporting. MFIs need technology solutions to assist them in meeting stakeholder requirements and to facilitate financing, operational efficiency, productivity, growth and sustainability. MFI field staff require solutions to improve client identification, ensure ubiquitous access to updated information, and reduce travel and transaction time. Clients would benefit from solutions that facilitate easy/doorstep delivery, flexible repayments, umbrella financial services, access to information, and a reduction in overall costs to ensure low interest rates.

To meet the needs of the various stakeholders, members suggested developing IT solutions to improve operations, including:

- E-administration communication and tracking tool.
- Database of credit information on borrowers in a certain region, made available to all new microfinance operators to avoid concurrent borrowing (especially problematic when MFIs are expanding outreach).
- E-finance tool to track income, expenses, savings and repayment of borrowers.
- Database of competing MFIs on principal operating and financial parameters (useful for banks lending through MFIs).

Respondents also highlighted the importance of having an appropriate MIS, depending on the MFI's mode of operations and nature of clientele. On one hand, it was felt the system needs to be designed in cooperation with the MFI. At the same time, members elaborated that it is often more practical to build MFI operations by first identifying the best available technology platform, because it promotes efficiency and will likely minimise teething troubles at the start up phase. While developing and customising the MIS, discussants outlined several "modules", a typical MFI would require:

- Selecting and tracking clients/members
- Organisational structure
- Disbursement and repayment tracking
- Accounting and finance
- Administration and auditing,
- Report generation and a database consolidator (for MFIs operating in remote areas).

Members clarified that many existing MIS tend to include modules only for tracking disbursements and repayments, accounting and generating reports, even though, often, additional modules are required. They highlighted that the high costs for developing and customising these modules, due to the unique processes and needs of each MFI, preclude many non-profit MFIs from developing all the essential modules. At the same time, respondents noted that for-profit MFIs with a commercial approach might desire additional MIS systems, including: IT and network management; forecasting and demand planning; human resources; payroll; communications and public relations; business development (product development and alliance management); and knowledge management.

While discussing MIS requirements, participants also suggested that MFIs make optimal use of existing technology to improve efficiency and integrate

products such as biometric smart cards, Point of Sales (PoS) devices, and mobile banking into their work. Members shared two experiences developing successful software solutions for the microfinance sector, while also stressing that once industry requirements are standardised and properly documented, developing reasonable solutions to suit MFI operations will not be an issue. However, until the sector reaches that point, the challenges to MFIs integrating technologies must be addressed. They highlighted several challenges making implementation of software difficult, including:

- High cost and time consuming process of customisation.
- Dependence on vendors to gather data for input on software, as field staff lack necessary training.
- Inconsistency in financial practices and frequent changes in microfinance operations, making standardisation of accounting practices difficult.
- Partial web-connectivity in branch locations, which then requires a database consolidator.
- Lack of adequate technical resources at the MFI level, restricting proper utilisation.
- Insufficient infrastructure, institutional capacities and continuous training/orientation of staff from software solutions providers, forcing MFIs to experiment with different solutions, which increases the burden on small/medium MFIs grappling with basic sustainability issues.
- Lack of understanding of Internal Rate of Return of technology by Indian microfinance and unfamiliarity with concept of integrating technology with business cash flows.
- Technical knowledge transfer to MFI by the technology provider and domain knowledge transfer to the technology provider by the MFI—lacking or not happening at the desired level.

Accordingly, members suggested that software solution providers offer long-term mentoring to MFIs, to allow them to internalise gradually the technology. This approach would involve greater interaction and a better understanding of each other's needs and constraints. Furthermore, discussants felt solution providers need to clearly demonstrate the financial and managerial advantages of using technology-based systems, to ensure greater ownership by all levels of MFI staff.

To address these challenges, respondents advised standardising software requirements, conducting bulk negotiations with software companies and providing training/capacity building for the staff of NGOs. Furthermore, they suggested national level

institutions like NABARD and SIDBI which have an interest in the healthy growth of the microfinance sector, take the lead in integrating technology into microfinance operations.

Comparative Experiences

Successful Software Solutions for MFIs

(from Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad)

Since implementing any microfinance software is often time consuming and leads to high costs, Elitser IT Solutions India Pvt Ltd, developed standardised software solutions called 'MicroFinancer' (standard version and enterprise versions). These softwares successfully address the majority of MFIs' requirements. These solutions have been tested and used by leading MFIs in India and abroad, and in 2005, NASSCOM Foundation short-listed it as an "IT Innovation."

Challenges of Implementing Software Solutions in Microfinance Operations

(from R. Raghavender Anand, Mahasemam Trust, Madurai)

Mahasemam Trust has introduced Oracle as the back-end and Java as the front-end solution for its NBFC. Though using the software improved MIS accuracy, the Trust is still in the process of addressing the challenges presented by the softwares. Customising the software to meet the MFI's needs has been time consuming and costly, and also requires broadband connectivity, high-end computers and training of field staff.

Related Resources

Recommended Organisations and Programmes

(from Raman V. Machiraju, Elitser It Solutions India Pvt Ltd., Hyderabad)

Elitser IT Solutions India Pvt. Ltd., Hyderabad

303, Aditya Trade Centre, Door No. 7-1-618, Aditya Enclave Road, Ameerpet, Hyderabad-500038, Andhra Pradesh; Tel: 040-23753232/1828; Fax: 040-23757676; <http://www.elitser.com/company-profile.html>

Provides technology solutions, training, management services and technical support to MFIs and NGOs to improve operational efficiency.

Gram Uttan, Kendrapara District, Orissa

At/Po: Pimpuri, Via: Rajkanika, Kendrapara District, Orissa; Tel: 6729-276225; <http://gramutthan.org/IT%20Infrastructure.html>

MFI has fully computerised its MIS at the head office and three branch offices for better monitoring of its SHGs/JLGs.

CARE CASHE (Credit and Savings for Household Enterprise) Programme, New Delhi

28 Hauz Khas Village, New Delhi-110 016, Tel: 011-26510915

<http://careindia.org/ManageProgrammeKey/VisitProgrammeCategory.aspx?CategoryID=3>

Has helped to improve the MIS software of several of its MFI/NGO partners and has conducted research on technology solutions for MFIs' field offices are located across the country.

Society for Elimination of Rural Poverty Indira Kranthi Patham (SERP-IKP), Hyderabad

4th Fl., Hermitage Office Complex, Door No. 5-10-192, Hill Fort Road, Hyderabad-500004, Andhra Pradesh; Tel: 040 -23298981; Fax: 040 -23211848; <http://www.velugu.org/Convergence/convergence.html>

IKP, formerly Velegu (which is the Telugu name for the SERP programme), has implemented software solutions for microfinance operations in collaboration with Elitser IT Solutions India Pvt. Ltd.

Life Bank Foundation, Inc, Philippines

Roosevelt St. Sta. Barbara, Iloilo City-5002, Philippines; Tel: 033-523-9348; Fax: 033 523-9348; <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=2237>

Has worked with Elitser IT Solutions, a technology service provider, to implement MIS software to improve its microfinance operations.

Financial Information Network and Operations (FINO), Mumbai

(from Gaurav Agarwal)

C-401, Business Square, Chakala, Andheri Kurla Road, Andheri (East), Mumbai-400093, Maharashtra; Tel: 022-40973321, 40973466; Fax: 022-40973300; <http://www.fino.co.in/>

Builds technologies to enable Financial Institutions (FIs) to serve the "unbanked sector," lower transactions costs, and increase outreach and transparency.

Mahasemam Trust, Madurai

(from R. Raghavender Anand)

1, 2, Lake Area, Mellur Road, Uthangudi Post, Near Meenakshi Mission Hospital and Research Centre,

Madurai-625107, Tamil Nadu; Tel: 452-4210601; Fax: 452-2586353; <http://www.mahasemam.org/financialservices.html>

Has recently introduced the software Oracle as back end and Java as front end in its microfinance operations to improve MIS accuracy.

Maanaveeya Holdings Oikocredit, Hyderabad

(from Suvarna Gandham)

Plot 107, Prasasan Nagar, Jubilee Hills, Road No. 72 Hyderabad-50033, Andhra Pradesh; Tel: 040-2355-4729; Fax: 040-2355-4729; <http://www.oikocredit.org/site/en/doc.phtml?p=Microfinance>

Organisation is undertaking an MIS status assessment of its borrower MFIs and plans to promote the MIS solution that suits the needs of its MFI borrowers.

Recommended Tools and Technologies

MICRO FINANCER – Standard Version (2.0) and Enterprise Version (3.5)

(from Raman. V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad)

Supplied by Elitser IT Solutions India Pvt. Ltd., Hyderabad; Contact Raman V. Machiraju at Tel: 040-23753232, 23751828 or E-mail: ramanojas@gmail.com <http://www.elitser.com/business-areas.html>

Elitser has developed financial accounting and MIS software that can integrate with any external hardware, seeks to facilitate multiple operations within MFIs through a single software solution.

The Mifos Initiative

(from Kanti Kiran, CATALYST, Mumbai)

Supplied by Grameen Foundation Technology Centre, Seattle, WA, USA; Tel: 1-206-325-6690; Email: mifos@grameenfoundation.org http://www.grameenfoundation.org/what_we_do/technology_programmes/mifos_initiative/

Open source information management system that allows MFIs to select locally based support services to assist with customisation of the software

Recommended Documentation

Issues of Extending MIS Software to Community Based Financial Institutions

(from Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad)

By H. Ramesh and P. Madhavi; CARE India, CASHE Programme; August 2005

http://microfinancegateway.org/files/38412_file_32.pdf
Report narrates CARE's experience in extending MIS solutions to its partner NGOs under its CASHE programme, including recommendations and challenges faced during implementation.

MIS and Information Needs

(from Agrawal G. K., NABARD, Mumbai)

By B. Suran and Ramakrishna; NABARD and GTZ; July 2005

http://microfinancegateway.org/files/38581_file_41.ppt
Presentation covers good practices, challenges and methods of addressing the MIS needs of entities working with SHGs through technology applications like e-munshi and smart cards.

(from Kris Dev, Life Line to Business, Chennai and Kartikay Rai, Intellectap, Mumbai)

FINO Adopts Gemalto Smartcards to Accelerate Micro-Banking Deployment in India

PR Newswire, Press Release; June 25, 2007

<http://www.prnewswire.co.uk/cgi/news/release?id=201411>

Note on how Gemalto and FINO will be deploying smartcard technology with biometric authentication, which can possibly facilitate remittance services.

Smart Card System: Information and Communication Technology (ICT) plus Finance Model for Rural Poor

By S. Gupta; Microfinance Gateway; June 2002

http://microfinancegateway.org/files/3329_file_03329.rtf

Covers the strength of ICT in microfinance lending and highlights a computer based transaction-recording system introduced by BASIX in February 2002 called BASIXPOT.

Reducing Micro-Credit Costs through Information Technology: The Case of SKS

Grameen Connections Newsletter, Grameen Foundation; April 2001

http://microfinancegateway.org/files/2797_file_02797.htm

Note on how SKS, based on its experience using smart cards and other technologies, found that MFIs can reach operational sustainability in two-thirds of the time it typically takes.

Client History Checking Database, SANABEL

(from Baladeb Sen, Microfinance Consultant, Gurgaon)

By A. Klfeh; Microfinance Gateway; 2003

http://microfinancegateway.org/files/18435_18435.pdf
Presentation discusses the constraints in sharing client database among MFIs as well as the successful approach used by a project to provide possible technological solutions.

Opportunities and Challenges in India: Crafting the MF/IT Paradigm-The Indian Experience

(from Brij Mohan, SIDBI, New Delhi)

By Janaki Turaga, Social Development Specialist; Information for Development Magazine; 2004

http://www.i4donline.net/issue/jan04/opportunities_full.htm

Article highlights the contributions of SIDBI's investments in integrating IT solutions into microfinance operations and also discusses the various MFIs in India which are using technology to improve operations.

Microfinance in India – A State of the Sector Report 2006

(from Navpreet Singh, Nidaan Samaj Sevi Samiti, Gwalior)

By Prabhu Ghate; CARE, Ford Foundation and the Swiss Agency for Development and Cooperation (SDC); 2006

http://microfinancegateway.org/files/36347_file_Sector_20Report.pdf

Report includes information on commercial bank activities in promoting new technology applications in the microfinance sector.

(from Sumeeta Banerji, Resource Person)

Mobile Phones for Microfinance

CGAP (Consultative Group to Assist the Poor) Brief; April 2006

Article discusses how mobile phones can be used for financial services to make micro payments (m-commerce), exchange electronic money (e-money) and as a banking channel.

Using Technology to Build Inclusive Financial Systems

CGAP Brief; April 2006

Brief elaborates on how innovative use of information and communications technologies can be employed to improve operations of MFIs

and commercial banks interested in serving the poor.

Funding Microfinance Technology

CGAP Donor Brief No. 23; April 2005

Shares information on existing technologies used by MFIs, how these technologies benefit microfinance providers and the ways which donors can support MFIs, integrating technology into processes.

Technology Investments: 10 Key Questions

CGAP IT Innovation Series

Article details the key questions directors and management of a financial institution should consider when deciding what and when to start using "technology" in their work.

(from Anjum Khalidi, Research Associate)

Meeting the Challenge—The Impact of Changing Technology on MFIs

By R. Ketley and B. Duminy; MicroSave Briefing Note #21

<http://microfinancegateway.org/content/article/detail/3771>

Article discusses how using technology can reduce the transaction costs of MFIs and includes recommendations for MFIs to help them develop an appropriate technology integration strategy.

Information for Development Magazine

January 2004

<http://www.i4donline.net/issue/jan04/content.htm>

Includes articles on new technologies, information technology for the microfinance sector, the Computer Munshi concept and MIS conceptions in microfinance.

ACCION PortaCredit: Increasing MFI Efficiency with Technology

By S. Barton and C. del Busto; InSight Newsletter No. 9; May 2004

http://microfinancegateway.org/files/20870_portacredit.pdf

Paper presents the software PortaCredit, discusses training microfinance staff on implementation, and creating the necessary IT infrastructure and buy-in from high level management to use it.

Management Information Systems (MIS) for Microfinance

By A. Ahmad; Banking With The Poor (BWTP); 2003

Paper argues that information and communication technology (ICT) can be a strategic tool in making MFIs more efficient and effective.

How Cellphone Technology can Mobilise Microfinance

By S. Lonie; Microfinance Gateway; November 2005

Article discusses advantages of mobile phone technology for microfinance operations; features experiences of Vodafone and M-Pesa and lists challenges for MFIs to use these type of technologies.

Microfinance Technology Fair

USAID Seminar, Chemonics International; April 25, 2007

http://www.microlinks.org/ev_en.php?ID=10558_201&ID2=DO_TOPIC

Presentations made by sector leaders covering the role of technology in the microfinance sector, existing technologies being implemented as well as related challenges and benefits.

Recommended Portals and Information Bases

Life Line to Business

(from Kris Dev, Life Line to Business, Chennai)

<http://ll2b.blogspot.com>

Covers various developments in information and communication technology for MFIs and NGOs in India.

Microfinance Gateway Technology Resources

(from Kartikay Rai, Intellectap, Mumbai)

http://www.microfinancegateway.org/resource_centres/technology/iss_software/list_technologies/2

Includes a variety of resources on Point of Sales (PoS) systems and successful case studies as a new innovative technology to improve delivery of microfinance services.

(from Anjum Khalidi, Research Associate)

Consultative Group to Assist the Poor (CGAP) Technology Centre

<http://cgap.org/portal/site/Technology/>

Site offers information and resources on developments, products/services and invites partnership opportunities; programme also seeks to incubate sustainable technology approaches by MFIs

Grameen Foundation Technology Centre

http://www.grameenfoundation.org/what_we_do/technology_programmes/

Shares information on the various projects and products piloted by Grameen Foundation across

the globe, including several MIS software and other technology solutions.

Microfinance Gateway Resources on Existing Software

http://microfinancegateway.org/fulltext/results.php?ft_keywords=accounting+software

Portal contains several reviews of existing softwares being used in the sector focusing on issues of cost, implementation and functionality.

Related Consolidated Replies

Models for Operational Efficiency of MFIs

from Abubucker, Accenture, Bangalore (Experiences) Issued 9 May, 2007

Shares various institutional models for MFIs and discusses the issue of sustainability, efficient Loan Officer to Group ratio as well as ways of using technology to reduce costs.



Consolidated Reply

Query: Developing Indicators to Assess Prospective Client Size for MFIs–Experiences

Compiled by Navin Anand, Resource Person and Anjum Khalidi and Nupur Bahl, Research Associates

Issue Date: 1 May, 2008

From Shubhankar Sengupta, Arohan, Kolkata

Posted: 1 April, 2008

Dear Members,

I run an MFI called Arohan catering to urban and semi-urban markets in Eastern India. Presently, we operate in a 50 km radius, in and around Kolkata. As you would know, Greater Kolkata is one of the largest urban conglomerates in the world, with a population of approximately 25 million. Arohan follows an adapted version of the Grameen model, catering to poor women in slums and low-income areas, giving out loans of Rs. 5-10,000. In our two years of operations, we have built a customer base of 33,000.

Now our challenge is how to identify and reach out to more prospective clients in Greater Kolkata – can we reach 500,000 women? Or a million women? A major challenge we face in attempting to do so is in defining target customer by an objective measure. It is difficult to have a single simple measure for assessing the target customer. Income as a measure is an unreliable figure, at a data gathering level because sometimes customers conceal and field staff don't dig deep enough. Plus, at an operational level in an MFI, if a customer appears 'poor enough', the staff are quite happy to lend to them. Below Poverty Line (BPL) population isn't good enough, since a large number of MFI clients tend to be slightly above it.

Assessing potential client size can be done by using some indicators (depending on which data is available, free or at a price). For example, some of these include:

- Number of slum dwellers (assumption: slum = poor = target client)
- Usage of public toilets (assumption: no toilet at home = poor = target client)
- Literacy (assumption: lower education = poor = target client)
- Per capita income at the household level
- Number of rooms in the house (assumption: 1-2 rooms/family = target client)

I'd like to request community members to share what indicators and models they are using or others have used to assess potential client size to increase outreach.

I would appreciate if members could please share their experience and suggestions, which would help us in assessing the number of households we can reach out to using the Grameen model. I thank members in advance for their time and contributions.

Responses were received, with thanks, from

1. Raman Machiraju, Elitser IT Solutions India Pvt Ltd., Hyderabad
2. Baladeb Sen, Microfinance Consultant, Chennai (Response 1; Response 2; Response 3; Response 4)
3. Pon. Aananth, HDFC Ltd., Coimbatore
4. N. Srinivasan, Microfinance Consultant, Pune

5. V. Sarat Patnaik, A.P. Grameena Vikas Bank, Visakhapatnam
6. Santanu Sengupta, Micro Money Management Enterprise (MMME) – Change Innovators, Kolkata
7. Shubhankar Sengupta, Arohan, Kolkata
8. Brij Mohan, ACCESS Development Services, New Delhi
9. Harish Chotani, Microfinance Consultant, Gurgaon (Response 1; Response 2)
10. G. K. Agrawal, Rural and Micro-Finance Consultant and Advocate, Mumbai
11. Jaya Patel, IFAD-Livelihood Improvement Project for Himalayas (LIPH), Uttarakhand
12. Arvind Mishra, Directorate of National Small Savings, Govt. of Uttarakhand, Dehradun
13. D. Narendranath, PRADAN, New Delhi
14. Vineet Rai, Intellecap, Mumbai
15. Hitendra V. Shanker, Parishkaar Advisory Services Private Limited, Hyderabad
16. Atanu Thakur, Vivekananda College – Economics Department, Kolkata
17. Sanjay Verma, PrimeNET Consulting Group, Lucknow
18. Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur
19. Arif M. Akhtar, Uttarakhand Parvatia Aajeevika Sanvardhan Co, Tehri Garhwal
20. Suresh K. Krishna, Grameen Koota, Bangalore

Further contributions are welcome!

Summary of Responses

Identification of the potential client size and mapping of the target area are some of the pertinent issues in all microfinance projects.

Responding specifically to the query, respondents highlighted the use of Geographic Information System (GIS) and placing each subset of information along with the demographic data of particular pocket of target population. Additionally, members suggested that constructing an index of publicly available proxy indicators with urban utilities and municipal bodies such as electricity connection, piped water connection, gas connection and type of house could be useful for assessing client size.

For demographic information on the poor, members advised not to depend entirely on BPL survey, but to use it for preliminary mapping in addition to the information available from voting list and Census of India -2001.

Identification of Clients

Further, on the issue of methodology and indicators to be used for identifying client group, members felt ‘Participatory Approach’ and using ‘Proxy Indicators’ could give practical results. They suggested various methods/indicators to identify potential clients.

- Proxy Indicators – Quality of roof, in-house toilet facility, landholding size, assets like TV, motorcycle, fridge etc.
- Disposable income as a critical factor in addition to proxy indicators.
- Composite index like Human Development Index (HDI), Gender Related Development Index (GDI) or Well-being Index.
- CASHPOR Housing Index (CHI).
- Well-Being Ranking (WBR).
- Focus Group Discussion with key informants and using proxy indicators.

Suggesting ‘Not to re-invent the wheel’, respondents provided references of successful methods followed by old time MFIs.

Discussants also gave views on the use of technology and explained benefits of using an IT based common tool for assessment of target customers.

Members recommended for adopting a balanced approach between ‘Data Driven Approach’ and ‘Human Approach’. Further, respondents suggested that a limited survey based on aggregation of people around activities and vocations such as rickshaw pullers, vendors, hairdressers, dairy farmers etc. or livelihood based sub-groups such as wage workers/labourers, salary earners, self-employed (agriculture or agriculture allied or non-farm sector) might give good results.

Additional research on the subject reveals variety of methods and tools for selecting target groups and assessing client size.

Finally, members stressed that through the use of GIS and an index based on publicly available indicators, client size could lead to estimates.

Comparative Experiences

Andhra Pradesh

Software Solutions for Identifying Target Groups, Hyderabad

(from Raman Machiraju, Elitser IT Solutions India Pvt Ltd, Hyderabad)

Elitser IT Solutions India Pvt Ltd. has developed a tool where data/inputs on various parameters/indicators can be fed into the system and are given a weightage. After the data is entered, the software calculates the percentage and gives recommendations. Based on these recommendations, the credit officer can then plan the loan for each client/group. These credit ratings have proved helpful in developing suitable products and defining the approach in each target area.

Identification of the Poor

(from Nupur Bahl, Research Associate)

Action Aid identified beneficiaries for its poverty reduction programmes through a participatory method involving the community. They developed participatory methods and used social mapping, well-being analysis and poverty ranking to identify three categories of beneficiaries—the poorest, the poor and the well off. The Gram Sabha then approves the list and presents it before the Panchayat for approval. In this process the community is categorised into groups.

Uttarakhand

Well Being Ranking (WBR) to Identify Clients

(from Jaya Patel, IFAD, Livelihood Improvement Project for Himalayas (LIPH), Dehradun)

Project for livelihood enhancement of the poor funded by IFAD aims to involve different categories of the poor in the Himalayan region. The project adopts Participatory Rural Appraisal method. Some clients from the target group are selected to learn about the project objectives and then are involved in developing a basic criterion for categorisation of households in their villages. Based on this, a WBR exercise is carried out using household cards, in order to categorise the community into different groups.

Uttar Pradesh

Cashpor Micro Credit Housing Index, Varanasi

(from Suresh K. Krishna, Grameen Koota, Bangalore)

CASHPOR Housing Index uses visual inspection to identify poor households. Point system is used and pre-determined numbers of points are allocated based on components of house (e.g. size, roof, walls and its structural condition). The index is locally determined and is weighted towards the most expensive components of the house. Each house is then assigned according to the cut-off points into one of the three categories—very poor, moderate poor and non-poor.

(from Navin Anand, Resource Person)

Manipur

Loyalam Bank Working to Reduce Poverty

As an alternative informal financial system, RDO initiated Loyalam Bank project, which is a replication of Grameen Bank model of Bangladesh. The project started on experimental basis with \$50,000 seed money from the Grameen Trust. The primary focus is towards eradicating poverty, with a special emphasis on women. The bank identifies the poor through a simple set of non-economic indicators.

Karnataka

Peoples' Criteria for Categorising the Poor

MYRADA adopted a scientific system of targeting the poor, classifying them into different categories. During the wealth ranking exercise, and group discussions conducted with the groups of MYRADA, the members were asked to select the criteria they would use to select the poverty criteria. Autonomy and democratic decision were maintained while taking these decisions. In this way, MYRADA coped with the difference between official definition of poverty and perspective of poor. Each village customised its own criteria for identifying poor in different classes. Through this method, homogenous groups could be formed.

Kerala

Alappuzha Model of Community Development Society (CDS)

The State Government, NABARD, UNICEF and the local body of Alappuzha Municipality are working together to put into practice the CDS system. CDS applied a different method of identifying the poor, wherein no income and expenditure factors were taken up. A nine point non-economic risk indices formula was applied for assessing the poor. Families with at least four of the nine factors were identified as the disadvantaged, or at high risk, and therefore 'poor'. In a short period of first three years, Alappuzha CDS had mobilised thrift to the tune Rs. 5 million.

Related Resources

Recommended Documentation

Individual Lending

(from Harish Chotani, Microfinance Consultant, Gurgaon; response 1)

Paper; by Harish Chotani; Microfinance Consultant; Gurgaon

Available at <http://www.solutionexchange-un.net.in/mf/cr/res01040801.pdf>

Analyses various features of individual lending, discusses the types and important elements for lending, and outlines the disposable income matrix.

Reaching the Other 100 Million Poor in India—Case Studies in Urban Microfinance

(from Baladeb Sen, Microfinance Consultant, Chennai; response 3)

Case Studies; Centre for Micro Finance (CMF/IFMR); October 2006

Available at http://microfinancegateway.org/files/38966_file_20.pdf

Contains case studies and identifies innovative practices from and prominent MFIs operating in urban areas, and examines various financial services offered.

(from Navin Anand, Resource Person)

A Manual for Capacity Building of Self-Help Groups: The MYRADA Experience

To avail of a copy contact MYRADA No.2, Service Road, Domlur Layout, Bangalore-560071, Karnataka; Tel: 91-0-80-25352028/3166/54457; Fax: 91-0-80-25350982; myrada@vsnl.com

A manual for capacity building of SHGs (Who are the Poor in Our Village – Module 2) that provides a matrix of categories: rich, middle, poor and very poor on 10 indicators.

Self-Help Groups for Holistic Development: The Kerala Experience

Paper; by Mr. K. R. Iyer; NABARD; February 1998

To avail of a copy contact NABARD, 'E' Wing, Bandra-Kurla Complex, Bandra (E), Mumbai-400051, Tel: 91-22-2653-0084; Fax: 91-22-2652-8141; nabmcid@vsnl.com

Discusses achievement of Alappusa model of CDS in Kerala, giving nine-point non-economic risk indices to identify the poor, for providing financial services.

A Handbook on Forming Self-Help Groups (SHGs)

Handbook; NABARD; Microfinance Gateway

Available at http://www.microfinancegateway.org/files/35017_file_51.pdf

Provides information on everything from A to Z about forming SHGs in a capsule form, including how to identify the poor in order to form SHGs and offer them microfinance services.

Methods for Community Participation (Chapter 4: PRA Relation Methods)

Book; by Somesh Kumar; Vistaar Publications; New Delhi; 2002

To avail of a copy contact Vistaar Publications at M-32 Market, Greater Kailash 1, New Delhi-110048,

Lists a variety of participatory rural appraisal (PRA) methods of community participation, including card sorting and social mapping used to determine "well-being" ranking in order to identify the poor.

Sustainable Banking with Poor: Microfinance Handbook – An Institutional and Financial Perspective (Chapter Two: The Target Market and Impact Analysis)

Book; by Joanna Ledgerwood; Sustainable Banking with the Poor (Project); The World Bank Publications; Washington, D.C.; 1999; paid publication

To avail of a copy <http://books.google.co.in/books?id=luaAHdTKMM8C>

Looks at market size, identifying target market, client characteristics and types of enterprises facilitating MFI to make business plans related to microfinance.

Targeting the Poor: SEWA's Approach

Case Study; SEWA, Gujarat

The paper provides details of Jeevika Project, PRA method and various indicators used by the community to select the best-suited criteria for identifying poor as a target group.

Results and Impact Management System: Practical Guidance for Impact Surveys (Draft)

Guidebook; IFAD; January 2005

Available at http://www.ifad.org/operations/rims/guide/e/part1_e.pdf

Guidebook gives Household Asset (Poverty) Index being used in IFAD funded livelihood and other projects. Discusses various tools being used to identify the poor in IFAD projects.

(from Nupur Bahl, Research Associate)

Measuring Health and Poverty: A Review of Approaches to Identify the Poor

Paper; by Jane Falkingham and Ceema Namazie; DFID; Health Systems Resource Centre; London

Available at <http://www.research4development.info/PDF/Outputs/HOppsIssuesPaperFalkingham.pdf>

Provides a critical review of methods for defining and measuring poverty, describes the various poverty

indicators, asset indices, proxy indicators and poverty mapping.

Wealth Ranking in a Caste Area of India

Paper; by Ruth Grosvenor-Alsop; International Institute for Environment and Development; 1989
Available at http://www.iied.org/NR/agbioliv/pla_notes/documents/plan_00401.PDF

Analyses the use of a wealth ranking technique to assess the wealth of different social groups in a village in Patna.

Credit Scoring for Microfinance: Can It Work?

Paper; by Mark Schreiner; Microfinance Risk Management and Centre for Social Development; Washington University; St. Louis; November 2000
Available at http://www.microfinance.com/English/Papers/Scoring_Can_It_Work.pdf

Critically examines credit scoring in the microfinance sector to assess credit risk of the borrower; discusses what types of risk to predict and reviews learnings from Bolivia.

Why Institutional Credit Agencies are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of the Indian Rural Credit Market

Paper; by B. Santonu; World Development; Vol. 25, Issue 2; February 1978
Available at <http://www.sciencedirect.com/science/article/B6VC6-3SWV6CP-C/2/ef7b0d8130234b791319a003f3f06db6>

Discusses theoretical reasons for the reluctance of formal financial institutions to lend to the rural poor, such as high credit risk and seasonality of income.

Credit Scores to Help Poor Get Bank Loans

Article; The Economic Times; New Delhi; December 27, 2006
Available at http://economictimes.indiatimes.com/Personal_Finance/Loan_Centre/Personal_Loans/Credit_scores_to_help_poor_get_bank_loans/rssarticleshow/940219.cmS

Describes statistical methods for credit scoring and how the current methodology adopted by many banks does not minimise default risk and argues that value at risk is a more suitable method.

Recommended Contacts and Experts

Dr. Rajalaxmi Kamath, Indian Institute of Management, Bangalore

(from Baladeb Sen, Microfinance Consultant, Chennai; response 2)

rajalaxmik@iimb.ernet.in

Is a senior faculty at IIM; per major interests include public finance and was credit policy and recently involved in a study on cash flows in urban slums.

Recommended Organisations and Programmes

Elitser IT Solutions India Pvt Ltd., Hyderabad

(from Raman Machiraju)

303, Aditya Trade Centre, Door No. 7-1-618, Aditya Enclave Road, Ameerpet Hyderabad-500038, Andhra Pradesh; Tel: 91-40-23753232; Fax: 91-40-23757676; contact@elitser.com; <http://www.elitser.com/business-areas.html>

Organisation assists in the development, management of application and software solutions for MFIs and organisations of different sizes.

(from Baladeb Sen, Microfinance Consultant, Chennai; response 1)

Friends of Women World Banking India, Ahmedabad

G-7, Sakar I, Opposite Gandhigram Station, Ashram Road, Ahmedabad-380009, Gujarat; Tel: 91-79-26580119; fwwb@wilnetonline.net; <http://fwwbindia.org/site/index.html>

Provides financial and capacity building services to organisations promoting livelihoods and self-reliance of poor women.

Spandana, Hyderabad

2-1-88/B/8/1, Krushi Nagar colony, Bandlaguda, (Nagole), Hyderabad, Andhra Pradesh-500068; Tel: 91-40-32998863; info@spandanaindia.org; <http://www.spandanaindia.org/projects.html>

Creates opportunities for marginalised women by identifying suitable vocations, imparts trainings and establish is micro enterprise units through thrift and credit programme.

Working Women's Forum (WWF), Chennai

55, Bhimasena Garden Street, Mylapore, Chennai-600004, Tamil Nadu; Tel: 91-44-24992853; Fax: 91-44-24992853;

wwforum@eth.net; <http://www.workingwomensforum.org/index.htm>

Works for poverty reduction and strengthening of economic, social and cultural status of poor working women, through micro-credit, training, social mobilisation and other interventions.

Livelihood Improvement Project for Himalayas (LIPH), Dehradun (from Jaya Patel)

188, Phase-I, Vasant Vihar, Dehradun-248006, Uttarakhand; Tel: 91-135-2762800; Fax: 91-80-28436577

IFAD funded project for livelihood promotion in Uttarakhand, adopted participatory Well Being Ranking (WBR) method for identifying target groups.

(from Navin Anand, Resource Person)

Mysore Rural Area Development Agency (MYRADA), Bangalore

No.2, Service Road, Domlur Layout, Bangalore-560071, Karnataka; Tel: 91-80-25352028/3166; Fax: 91-80-25350982; myrada@vsnl.com; <http://www.myrada.org/millennium.htm>

Supports microfinance programme through Sanghamitra Rural Financial Services and provides non-farm skills and enterprise development support.

Sanghamithra Rural Financial Services, Mysore

916, 8th Main, 3rd stage, Gokulam, Mysore-570071, Karnataka; Tel: 91-821-2415528 or 2512419; Fax: 91-821-2512419; sanmitra@sancharnet.in; <http://www.sanghamithra.org/programmes.htm>

MFI promoted by MYRADA providing financial services to poor women clustered into self-help affinity groups including business linked individual financial assistance.

Loyalam Bank of Rural Development Organisation (RDO), Imphal

Lamsang, Imphal, Manipur-795146, Tel: 91-0385-310961; Fax: 91-0385-222936

First few Grameen replicates in India especially in northeastern region focusing on livelihood promotion, microfinance and other social sector initiatives.

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

Plot No. C-24, "G" Block, Bandra-Kurla Complex, P.B. No 8121, Bandra (E), Mumbai-400051, Maharashtra; Tel: 91-22-26539244; Fax: 91-22-2652-8141; nabmcid@vsnl.com; <http://www.nabard.org/creditfunctions/introduction.asp>

Responsible for microfinance related activities of NABARD. Develops training material for the SHGs. Came out with a handbook on forming SHGs and 11 point questions for identifying poor.

Jeevika Project, Self-Employed Women's Association (SEWA), Ahmedabad

Sakar-II 409/410, 4th floor, Opposite Town Hall, Ellishbridge, Ahmedabad-380006, Gujarat; Tel: 30024490/91/92; jeevikasewa@icenet.net, mail@jeevikasewa.org, jeevikasewa@icenet.co.in; http://www.jeevikasewa.org/participatory_microplan_development.htm

Works to increase livelihood security for vulnerable households affected by disasters in Gujarat, follow a decentralised model and have a comprehensive approach to identify clients.

(from Nupur Bahl, Research Associate)

Community Development Society (CDS), Alappuzha

CDS Government Secretariat, Trivandrum Alleppey, Kerala-695001; Tel: 91-471-69439; <http://www.iisd.org/50comm/commdb/list/c33.htm>

CDS engages in planning, resource mobilisation for children and women; poor families were identified by local community members through a poverty index.

Grameen Koota, Bangalore

Avalahalli Anjanapura Post Bangalore-560062, Karnataka, Tel: 91-80-28436237; Fax: 91-80-28436577; info@grameenkoota.org; <http://www.grameenkoota.org/microfinance.html>

Delivers need-based financial services in a cost effective manner, has become a financially sustainable MFI for the poor.

CASHPOR Micro Credit, Varanasi

Opposite CARE Hospital DLW-BHU Road, Bhikaripur, Varanasi-221004, Uttar Pradesh; Tel: 91-542-2322282; 91-542-2322281; info@cashporindia.net; <http://www.cashporindia.net/housingindex.htm>

CASHPOR Micro Credit utilises Housing Index as a cost effective method to identify poor households through visual inspection from the road or lane outside the house.

Census of India 2001-Data Dissemination Wing, New Delhi

Office of the Registrar General, India 2A, Man Singh Road, New Delhi-110011; Tel: 91-11-23070629; Fax: 91-11-23383145; rgoffice@ndf.vsnl.net.in; <http://www.censusindia.net>

Source of demographic information is available at the village level; state wise information available on CDs.

Action Aid, New Delhi

R-7, Hauz Khas Enclave, New Delhi-110016, Tel: 91-11-40640500; Fax: 91-11-41641891; <http://www.actionaidindia.org/>

Action Aid India, works on identifying and reaching out to 12 million poor and marginalised people in the country. It works with over 2,000 local partner organisations worldwide.

Recommended Portals and Information Bases

IFMR-Centre for Micro Finance, Chennai

(from Baladeb Sen, Microfinance Consultant, Chennai, Response 2)

<http://www.ifmr.ac.in/cmfcasestudies.html>

Portal contains electronic copies of several papers, case studies published by IFMR, includes information on MFIs operating in urban areas using innovative identification practices.

USAID Poverty Assessment Tools

(from Nupur Bahl, Research Associate)

<http://www.povertytools.org/>

Portal contains tools related to USAID Accelerated Microenterprise Advancement Project; these are USAID-certified poverty assessment & country specific projects & can be used to identify poor.

Recommended Tools and Technologies

(from Nupur Bahl, Research Associate)

Statistical Package for Social Sciences (SPSS)

<http://www.spss.com/>

Statistical analysis software capable of data management and documentation, can be used for analysis and management of data collected for beneficiary selection.

Livelihood Asset Status Tracking (LAST)

<http://www.livelihoods.org/info/tools/LAST.html>

Software tracks ongoing dynamics of five capital

assets essential to household livelihoods, can be used for well-being ranking and impact assessment.

Related Consolidated Replies

Coverage of Child Labour Families in BPL List, from Srinivas Reddy, ILO, New Delhi (Experiences). Work and Employment Community. Issued 13 June, 2006

Available at <http://www.solutionexchange-un.net.in/emp/cr-public/cr-se-emp-13060601-public.pdf>

Provides examples, lists processes, studies and methodology of participatory projects and methods which identify the poor effectively.

Designing Credit Risk Assessment Tools to Reach the Poor

from Rohit Raina, ICICI Bank Ltd., Mumbai (Examples; Experiences). Microfinance Community. Issued 25 July, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-06070701-public.pdf>

Shares experiences of risk assessment and examples of tools which formal financial institutions can use to reach poor populations with microfinance services and discusses client profile.

Urban Microfinance and Employment

Santanu Sengupta, Micro Money Management Enterprise (MMME)-Change Innovators, Kolkata (Experiences). Microfinance Community and Work and Employment Community. Issued 26 March, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-emp-06020801-public.pdf>

Discusses the various urban-specific vulnerabilities that the urban poor face; activities for sustainable urban employment and learnings to consider for urban microfinance interventions.



Consolidated Reply

Query: Models for Operational Efficiency of MFIs–Experiences

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate
Issue Date: 9 May, 2007

From Abubucker, Accenture, Bangalore

Posted: 17 April, 2007

Dear Forum Members,

I am part of a team working in Bangalore to establish a Micro-Finance Trust called “LifeLine Microcredit Trust”. We have just started up on 13th February, 2007 by a group of philanthropists and concerned residents of Bangalore city to economically empower the poor and provide micro-credit facilities to them. We target to help the poor who are unable to access credit, or get it at unfair terms. Our motto is one of “Non-Profit” (cost recovery). Our vision, mission, goals and objectives are attached at <http://www.solutionexchange-un.net.in/mf/cr/res17040701.doc>.

We have conducted three meetings and have registered up to 39 groups of five each. Next week we will formally launch the loan disbursement for three people valued at Rs 15,000. Given this context, you can easily see the need for operational efficiency and high need for reducing the cost of capital.

We would like to learn from network members to develop a model based on operational efficiency and use of methods and technology to reduce cost of capital. Could members advise us on the following:

- Is it possible to sustain a “Non-Profit” Model in microfinance.
- What is the ideal ratio of Loan Officer to Group (borrowers) if we have five members in each group?
- What are some of the successful business models for microfinance in rural and urban areas, which use technology and other means to reduce transaction costs and cost of capital?

Responses were received, with thanks, from

1. Manab Chakraborty, Mimo Finance, Dehradun
2. M. V. Raman, Java Softech Pvt Ltd., Hyderabad
3. Vikash Kumar, Grameen Koota, Bangalore
4. Raj Kumar Jani, Rural Business Hubs, Ministry of Panchayati Raj-UNDP, New Delhi
5. A. Madhan Kumar, Dhan Foundation, Madurai (Response 1; Response 2)
6. Rohit Raina, ICICI Bank, Jabalpur
7. Savita Shankar, Researcher, Singapore
8. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Response 1; Response 2; Response 3)
9. Vineet Rai, Intellectap, Mumbai
10. Sasidhar N. Thumuluri, MicroVest Capital Management LLC, Maryland, USA

Further contributions are welcome!

Summary of Responses

A MFI sought advice on the sustainability of a ‘non-profit’ model, information on efficient operational models and types of technology to reduce transaction and capital costs.

Members responded by clarifying the legal meaning of ‘not for profit’, explaining that it does not necessarily mean that profit cannot be earned; rather dividends are not given to MFI clients, instead the profits are re-invested into the organisation. Organisations could plough profits generated from microfinance (MF)

activities back into the organisation to meet the needs of poor clients—viewing microfinance as an entrepreneurial activity designed to generate more employment.

On the other hand, respondents felt a microfinance model, not based on earning a profit, was untenable because most investors look for healthy financial returns and attracting capital would be problematic. Being profitable is an essential component of sustainability for MFIs. Further, a non-profit model would be grants/subsidy dependent, which could hinder the innovative and entrepreneurial drive of staff and cause the MFI to become risk-averse.

In order for organisations aspiring to provide financial services to the poor at the lowest possible rate, MFIs need to ensure efficient operations and low transaction costs. Members mentioned several models and methods to achieve this objective. Staffing is an important cost component, and one suggestion was maintaining a ratio of 350-500 borrowers to every loan officer. At the same time, it was noted that it is extremely difficult to state the ideal loan officer to client ratio as it depends on several factors:

- Density of population of the area
- Geographic terrain of operation i.e. urban, rural or tribal areas, road conditions, mode of transport
- Organisation's business model, including methodology (i.e. lending to groups or individuals, or to individual in groups)
- Radius of operations covered
- Experience of staff and training given to loan officers
- Number of services/responsibilities of each loan officer (i.e. credit/savings/insurance)
- Products in the distribution channel (i.e. credit, savings, insurance layered on credit/savings)
- Use of technology in distribution and the type of MIS involved
- Age of the MFI.

Based on findings of a study on transaction costs of group micro-credit, members advised MFIs reduce direct transaction costs by increasing the number of groups per square km to save the fieldworker's time and conveyance cost. Additionally, reducing the collection frequency could decrease the load on fieldworkers. Respondents also suggested improving fieldworker productivity by utilising them better during the day when they are not in the field and linking their incentives to portfolio profits rather than to the number of groups formed or repayment levels.

Agreeing that labour is the dominant cost in delivery of microfinance, members explained most financial institutions dealing with retail customers migrate to technology to manage human cost impact on profitability. Adoption of technology has been slow in the sector since technology investments do not reduce costs in single product microfinance models. Further, they cautioned that technology could reduce costs only if the portfolio size and number of clients is viable. Introducing product complexity and enhancing geographical spread, makes technology, investment cost effective. Respondents pointed out MFIs that have started successfully using technology enhanced their efficiency levels and are performing better financially. For example, organisations using mobile phone payments in Kenya, South Africa, the Philippines and Latin America, and banks in Guatemala and Peru that have introduced electronic payment systems have reduced transaction and capital costs. Other examples shared came from India, Uganda and Columbia where banks are providing point of sale (PoS) devices installed at local retailers, allowing clients to make withdrawals and deposits closer to home. Members also cited an organisation providing software solutions to several leading MFIs. In addition, members mentioned several urban and rural business models that have successfully reduced costs.

Along with introducing technology, other potential ways to improve the efficiency of MFIs include using effective MIS, and estimating/evaluating the exact transaction costs depending on the loan/savings products designed to suit different customer groups when determining the cost of capital.

In addition, respondents shared various factors to consider when deciding on the most appropriate model to adopt. These include the number and kind of clientele (the very poor/not-so-poor, unreached/reached, men/women), area of operation, outreach or growth strategy, range of products and services offered, service delivery methods, legal/institutional structure of the organisation, mode of promoting services and the long term objectives of the organisation.

Members also highlighted strategies which different models have adopted to reduce costs, such as:

- Employing technology
- Using intermediaries
- Enhancing staff efficiency
- Delivering a range of financial services to clients (i.e. insurance savings, credit etc.) allowing MFIs to achieve economies of scale

- Providing integrated livelihood support
- Cross subsidising (as banks/MFIs have demonstrated)–lending to not-so-poor clients and directly subsidising the transaction costs involved in providing finance to the poor.

Finally, members underscored that a successful microfinance model can help alleviate poverty and enhance livelihood options by providing poor clients a basket of services like micro insurance, business development services, access to healthcare and educational opportunities. Providing backward and forward linkages, like skill training and market support, respondents felt, would not only build the capacity of poor, but also ensure a steady and timely repayment of loans. While conceding that integration of a basket of services is a challenge, members suggested using the “collaborative polygon” approach.

Comparative Experiences

West Bengal

(from M. V. Raman, Java Softech Pvt Ltd., Hyderabad)

Delivering Microfinance Services through Joint Liability Groups (JLGs) Model

Village Welfare Society (VWS) has been working in microfinance for over 10 years and has adopted a peer-lending model through JLGs. VWS has developed its own process of data collection through its Community Volunteers (CVs) and network of 18 branch units. The JLG model has been very successful in terms of repayment of loans with a low default rate of around 2 percent.

Karnataka

Building Cluster Level Associations for Operational Efficiency

OUTREACH in Bangalore establishes Cluster Level Associations (CLAs) that act as intermediaries borrowing from the NGO-MFI for cluster level investments/working capital and ‘on lending’ to SHGs. OUTREACH shifted from the SHG to CLA model as the latter proved to be a more viable community-managed MFI. Linked with the banks, CLAs now also manage crop insurance, trading in inputs and marketing of output, group enterprises and social action programmes.

Andhra Pradesh

Member-managed Mandal Samakhyas

The Society for Elimination of Rural Poverty (SERP) project reaches rural poor families through social mobilisation processes and formation of SHGs,

federations and Village Organisations (VOs) at the village level, and Mandal Samakhyas at the mandal level. All the VO in a mandal are federated. By building the capacity of the federations, the women have gained a sense of ownership and the entities have become self-managed.

Tamil Nadu

Self-Reliant Federations

(from A. Madhan Kumar, Dhan Foundation, Madurai)

Federations promoted by Dhan Foundation have now largely become self-reliant. Banks are coming forward to cover the promotional costs for the period of three years in anticipation of future business. Over time, the federations are able to pay for the costs of their services rendered by the federation staff. Moreover, the Foundation’s operational scale has given it an advantage in terms of insurance services, forward/backward linkage and above all greater ownership.

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (response 2))

Multiple States

Biometric ATMs for Microfinance Customers

Citibank India has developed a first of its kind, biometric ATM, for microfinance customers. The biometric ATMs have multiple language capabilities with voice enabled navigation facility. The biometric ATMs are conveniently located at the partner MFI offices and/or in areas that are located near to where customers live and work. Additionally, a shared network of over 15,000 ATMs in India is available to these customers free of charge.

Smart Card Technology for Greater Operational Efficiency

Financial Information Network and Operations Ltd (FINO) and ICICI Bank piloted smart card technology in India, allowing the microfinance customers loan passbook, fingerprints, and other information to be stored on the card. FINO recently introduced smart cards with borrowers of the MFI Janalakshmi, which allows traders to participate in fruit and vegetable auctions and access the trading floor without having to carry cash and/or resort to expensive loan arrangements through moneylenders.

Doorstep Delivery of Insurance Services

Tata AIG in India delivers micro insurance services through grassroots community enterprises in villages.

It is conducting a pilot with 'Rural Community Insurance Groups' (CRIGs) agents to collect insurance premiums. The CRIGs are registered as a partnership company. This approach offers a 'two-way advantage' for those involved- 1) cost effective service delivery for those at the receiving end, and 2) provides a livelihood opportunity to those rendering the service.

International Kenya

Increasing Access to Financial Services through Mobile Phone Payment Solutions

Vodafone under the DFID Financial Deepening Challenge Fund (FDCF) is partnering with Safaricom, the leading mobile communications provider in Kenya. They recently announced the launch of M-PESA, an innovative new mobile payment solution that supports money transfers, cash withdrawals and deposits at retail outlets, and disbursement and payment of loans. M-PESA has increased access to services for those in remote areas in a cost effective and less time-consuming manner.

South Africa

Using Cellphones to Address Unemployment and Expand MFI Outreach

WIZZIT, a cellphone based banking facility (compatible with 'pay-as-you-go' phone accounts), targets an estimated 16 million unbanked or under banked since it does not require a bank account. The initiative has employed over 800 'Wizz Kids' (unemployed university graduates from low-income communities) to promote the product and open accounts. Within the first six months of the launch, First National Bank signed up 1,30,000 new customers.

Philippines

Mobile Phones Become Electronic Wallets for Lower Costs and Greater Access

Globe Telecom and SMART Communications launched a new innovative product called G-Cash, an SMS-based technology that turns a cellphone into an electronic wallet. Globe Telecom's mobile phone banking and text-a-payment products have the potential to extend financial services through virtual accounts to millions. As of March 2006, there are approximately 1.3 million G-Cash registered users with the G-Cash system handling about US\$100 million per day.

Uganda

Point-of-Sale Devices to Extend Rural Outreach

Uganda Microfinance Limited (UML) is implementing a Point-of-Sale device technology, initially piloted by a consortium of institutions including ACCION International and Hewlett-Packard to extend rural outreach. The device is currently installed at a gas station (additional third party retailers are being identified), thus facilitating loan repayments and disbursements in an area where UML currently does not have a branch.

South and Central America

Pre-Paid Cards for Loan Disbursements

FINCA Guatemala and Nicaragua collaborated with VISA to pilot the use of pre-paid cards for loan disbursements. The pilot sought to streamline operations, improve customer service, provide clients with access to cash as needed, and encourage savings. Mibanco in Peru has also become a VISA member bank and has introduced VISA products including Miahorro (a savings account with debit card) and VISA Empresarial card (used at ATMs and a credit card). Both were launched in 2006.

Cellphones Facilitating Remittance Payments

Motorola in Latin America recently unveiled M-Wallet, a downloadable software application that allows users to pay bills, purchase products, and/or transfer money using their cellphones. The company is targeting the remittance market between the U.S. and Latin America.

Related Resources

Recommended Organisations

(from M. V. Raman, Java Softech Pvt Ltd., Hyderabad)

Village Welfare Society (VWS), Kolkata

Village Tower, F-15, Geetanjali Park, 18/3A Kumud Ghosal Road, Ariadaha, Kolkata-700057, West Bengal; Tel.: 033-25646545/25645786; Fax: 033-25443240; <http://www.villagewelfare.com/>

MFI using JLGs to strategically deepen its existing areas of microfinance delivery.

Society for Elimination of Rural Poverty (SERP), Hyderabad

4th Floor, Hermitage Office Complex, Door No. 5-10-192, Hill Fort Road, Hyderabad-500004, Tel: 91-40-23298981; Fax: 91-40 -23211848; http://www.velugu.org/What_Velugu/what_velugu.html

One of its core functions is to develop grassroot

institutions to deliver microfinance services starting from SHGs and building up to VOs and Mandal Samakhyas.

Bullock-Cart Workers Development Association (BWDA), Villupuram

Villupuram, Tamil Nadu; Tel: 04146-242815; bwda1@sancharnet.in; <http://www.bwda.org.in/>
Linked Below the Poverty Line (BPL) SHGs formed from families of bullock-cart workers, artisans and peasants directly to banks providing direct-lending microfinance services.

Java Softech, Hyderabad

303, Aditya Trade Centre, Door No. 7-1-618, Aditya Enclave Road, Ameerpet, Hyderabad-500038, Andhra Pradesh; Tel: 91-40-23753232/1828; Fax: 91-40-23757676; <http://www.javasoftech.com/index.html>
Develops software solutions that combine the latest technologies, training, management services and technical support for NGOs, MFIs and other institutions.

(from A. Madhan Kumar, Dhan Foundation, Madurai)

BASIX India, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 91-040-30512500/1; Fax: 91-040-30512502; <http://www.basixindia.com/default.asp>
Developed 'Collaborative Polygon', which can be used for delivering financial products, livelihood promotion services and institutional development.

Dhan Foundation, Madurai

18, Pillaiyar Koil Street, S. Colony, Madurai-625016, Tamil Nadu; Tel: 91-452-2610794/805; Fax: 91-452-2602247; <http://www.dhan.org/>
Offers microfinance through a federation model by building clusters and federations at the panchayat and block level that work with SHGs.

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (response 2))

Citibank India/Citigroup Microfinance Group, Mumbai

7th Floor, C-61, Bandra Kurla Complex, G Block, Bandra (E), Mumbai-400051, Maharashtra; Tel: 91-22-4001-5757; <http://www.citigroup.com/citigroup/press/2006/061201d.htm>
Uses the Banking Correspondent (BC) model to work with MFIs as partners and clients to expand

access to financial services to those unreached by the formal financial sector.

TATA-AIG Life Insurance Company Ltd., Mumbai

Peninsula Towers, 6th floor, Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai-400013, Maharashtra; Tel: 1-800-11-9966; info@tata-aig.com; http://tata.com/0_our_commitment/community_initiatives/articles/20050122_tata_aig.htm
Developed a model to deliver micro insurance services in remote areas using CRIGs trained to reach 700 policyholders during incubation period.

Financial Information Network and Operations Ltd (FINO), Mumbai

Ground Floor, South Tower, East Wing, ICICI Towers, Bandra-Kurla Complex, Mumbai-400051, Maharashtra; Tel: 022-26538060; info@fino.co.in; <http://www.fino.co.in/index.htm>
Technology firm incubated by ICICI Bank, developing innovations in the field of technology for MFIs to streamline operations.

Institute for Development and Research in Banking Technology (IDRBT), Hyderabad

Castle Hills, Road No.1, Masab Tank, Hyderabad-500057, Andhra Pradesh; Tel: 91-40-23534981; Fax: 91-40-23535157; http://www.idrbt.ac.in/research/ongoing-projects/smart_cards/index.html
Collaborated with the Ministry of Information Technology to pilot a Smart Card experiment for electronic transactions with public and private sector banks in Andhra Pradesh.

Financial Deepening Challenge Fund, United Kingdom

Enterplan, 1 Northfield Road, Reading, RG1 8AH, UK; Tel: 44-0-118-956-6066; Fax: 44-0-118-957-6066; jmr@enterplan.co.uk; <http://www.financialdeepening.org/default.asp?id=694&ver=1>
Project of the DFID Fund to develop a mobile phone based solution for transferring money in areas of Kenya and Tanzania that lie beyond the reach of fixed line telecommunications.

WIZZIT, South Africa

4th Floor, South Tower, Nelson Mandela Square at Sandton City, Sandton, South Africa; Tel: 0861 949 948; wizzinfo@wizzit.co.za; www.wizzit.co.za
The facility allows low income account holders to use their mobile phones to remit money to a third party, buy airtime, or pay accounts.

Uganda Microfinance Limited (UML), Uganda

Head Office Plot 49/51 Bukoto Street, P.O. Box 10184, Kamwoyka, Kampala, Uganda; Tel: 256-41-531-377, 256-31-262-436; Fax: 256-31-262-436; ugandamu@umu.co.ug

An NBF established in 1997, working with ACCION and others to use technology to deliver POS services.

Recommended Documentation

Transaction Costs in Group Micro Credit in India: Case Studies of Three Microfinance Institutions

(from Savita Shankar, Researcher, Singapore)

By Savita Shankar; Centre for Microfinance Working Paper Series; August 2006

<http://ifmr.ac.in/cmfw/wp-content/uploads/2006/10/caseStudyMFIsAug06.pdf>

Study sought to gain a better understanding of MFI transaction costs to evolve better strategies for reducing lending costs of microfinance.

(from M. V. Raman, Java Softech Pvt Ltd., Hyderabad)

Reaching the Other 100 Million Poor in India: Case Studies in Urban Microfinance

Centre for Micro Finance, Chennai

<http://ifmr.ac.in/cmfw/publications/case-studies/>

Report examines the business strategy, structure, operations and constraints of six MFIs, including Village Welfare Society, an NGO using the JLG model.

KAS Foundation Annual Report 2005-2006

KAS Foundation, Orissa

<http://ifmr.ac.in/cmfw/partners/>

Annual Report of KAS Foundation goes into detail regarding the organisation's structure and experiences with direct lending to its SHG members.

Self-Help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact

By Ajay Tankha; Prepared for ICCO and Cordaid, The Netherlands

www.microfinancegateway.org/files/3736_SHGREPORT.pdf

Report studies the costs, sustainability and impact of several MFIs including OUTREACH in Bangalore, which uses the federation model to deliver microfinance services.

(from A. Madhan Kumar, Dhan Foundation, Madurai)

Network and Collaborators of BASIX

By Vijay Mahajan; BASIX India; October 2005

<http://www.basicsindia.com/collabrotionoct05.doc>

Report on how extending the financial services through collaborations can reduce cost of lending and increase access, thereby enhancing viability.

Building Partnerships for Livelihood Promotion: The BASIX Experience

By Vijay Mahajan; BASIX India

<http://www.basixindia.com/Collaborations.ppt>

Presentation explains how to use the 'Collaborative Polygon' model to build partnerships for livelihood promotion and lessons learned.

(from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (response 2))

Talking About a Revolution

By Maya Fisher-French; Maverick Magazine; November 2005

<http://www.wizzit.co.za/media/revolution.pdf>

Article on how mobiles can bring millions of South Africans into mainstream banking through the innovations made by WIZZIT, a cellphone based technology for financial transactions.

Catching the Technology Wave: Mobile Phone Banking and Text-a-Payment in the Philippines

Chemonics International Inc.

<http://www.chemonics.com/projects/content/GCash.pdf>

Project document that illustrates the workings of G-Cash, a mobile phone banking facility, designed to cost-effectively expand outreach to remote areas.

A New Model for Rural Connectivity

By Al Hammond and John Paul; World Resources Institute; March 2006

Discusses Motorola's telecommunications innovations piloted in Latin America to increase greater access to financial services in remote areas.

Microfinance through the Next Decade: Visioning the Who, What, Where, When and How

By Elisabeth Rhyne and María Otero; ACCION International, a Paper Commissioned by the Global Microcredit Summit; 2006

<http://www.microcreditsummit.org/papers/Plenaries/RhyneOtero.pdf>

Paper covers VISA's collaboration with FINCA and Mibanco to provide electronic payment systems and looks at a case in Colombia of 45 cooperatives using a single PoS solution.

Brokering Change in the Low-Income Market

FinMark Trust and the Ford Foundation; October 12, 2006

http://www.finmarktrust.org.za/documents/2006/OCTOBER/R_intermediaries.pdf

Section 6 of the report covers various intermediary microfinance models, highlighting the experience of Megatop/ITC's experiment with e-choupals.

Recommended Portal and Information Base

Mix Market

(from Vikash Kumar, Grameen Koota, Bangalore)

www.mixmarket.org

A web-based, microfinance information platform provides comparative data on MFIs of all types in India, and across the globe.



Consolidated Reply

Query: Designing Credit Risk Assessment Tools to Reach the Poor- Experiences and Examples

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate
Issue Date: 25 July, 2007

From Rohit Raina, ICICI Bank Ltd., Mumbai
Posted 6 July, 2007

I work for the Development Strategies Group of ICICI Bank and we are focusing our attention on financial inclusion for the poor, a continuing challenge for India. The growth and spread of MFIs has played a significant role in increasing access to financial services to populations that are currently not being reached by banking industry.

Currently, the credit application process in banks is based on traditional credit assessment methodology which involves extensive documentation and paper work, thus, making it cost and time intensive and suitable only for large size loans. Such application processes are not suitable for smaller loan sizes (say Rs. 5,000 to 25,000), demanding shorter loan processing time and lower processing costs. Today, if banks are to directly reach out to this segment, one of the prime factors that deter them is not having adequate measures to assess credit risk of lending to a client in this population.

I would like to look at this issue further to explore new approaches that commercial banks can adopt to promote financial inclusion. Therefore, I would like to ask community members for their experiences on assessing credit risks of poor clients

- Design features of an objectively verifiable indicator/tool to assess credit risk associated with the rural client, (similar to the Cashpor Housing Index which measures poverty) which can replace/reduce traditional credit risk assessment systems of commercial banks.
- Features of short and appropriate client profile.

- Key indicators used to predict credit risk level of the rural client.

Your inputs will greatly help in initiating research for improving the credit risk assessment methodology for banking institutions and help increase outreach to the rural, farm and unorganised sector. Your time and contributions are greatly appreciated and would be duly acknowledged in any report or service that will result from this research and will be shared with the community.

Responses were received, with thanks, from

1. Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad
2. Baladeb Sen, Microfinance Consultant, Gurgaon (Response 1; Response 2; Response 3; Response 4)
3. Manov Maitry, Aga Khan Rural Support Programme (India), Khandwa (Response 1; Response 2)
4. L. B. Prakash, Akshara, Hyderabad (Response 1; Response 2)
5. Santanu Sengupta, Micro Money Management Enterprise (MMME), Kolkata (Response 1; Response 2)
6. Rohit Raina, ICICI Bank Ltd., Mumbai
7. Teki Surayya, National Institute of Financial Management, Faridabad
8. Kris Dev, Life Line to Business (LL2B), Chennai

9. T. Asaithambi, Madurai Vattara Kalanjiam, Madurai
10. Kedareswar Choudhury, Darabar Sahitya Sansad, Orissa
11. G.V.Krishnagopal, AccessLivelihoodsConsulting India Private Limited, Secunderabad
12. Kanti Kiran, CATALYST, Mumbai
13. Toms K. Thomas, Evangelical Social Action Forum (ESAF), Pathinmathitta
14. Perwinder Singh Bhatia, Indian Institute of Management (IIM), Ahmedabad

Further contributions are welcome!

Summary of Responses

As the microfinance sector is growing rapidly, formal financial institutions have renewed interest in financial inclusion; however, the current credit risk assessment methods currently used tend only to be suitable for large loans and are time and documentation intensive. Responding to a query exploring design features and indicators which formal financial institutions could use to reach poor populations better, members shared experiences with risk assessment and examples of tools designed to improve delivery of financial services along with discussing the issue of credit risk.

Assessing credit risk is often a challenge for MFIs. Respondents highlighted and listed several tools for evaluating risk, including Progress out of Poverty Indicators (PPI). The PPI tool is both a management and measurement tool, developed to help MFIs determine the poverty status of potential clients as well as measure how and why living conditions of clients change over time. The tool also helps estimate the poverty levels of clients based on 10 simple indicators (classified as very poor, moderately poor, and non-poor) that field workers can quickly collect, easily verify, and apply in urban and rural contexts.

Another tool mentioned was the Client Scoring System, a way of determining the credit risk of poor borrowers using quantitative performance measures and characteristics of past loans to predict clients' future performance with similar loans. Respondents shared experiences with this system from Bolivia and Peru that highlighted how client scoring helps to judge risk and hence cut costs and losses.

Discussants also suggested using some features of the biometric smart cards to assess credit risks and monitor loan repayments. They elaborated that if financial institutions mandate using smart cards, then the process of credit risk assessment would become automatic and statistical data would be available simply by selecting the criteria required for assessment and obtaining the necessary details.

Responding to the question on features of appropriate client profile, members mentioned the indicators and methodology used by the Government of India to determine the income levels of the rural poor, used to create the Below Poverty Line (BPL) list of families. The format uses simple indicators based on the assessment of livelihood opportunities, basic demographic information, number of household members earning, vulnerabilities (like child, migrant labour, etc.) and assets. To use similar indicators for assessing credit risk, respondents suggested examining:

- Livelihood portfolio of families—number of earning members in the household
- Basic demographic data—number of dependents, non-earning members
- Asset quality and number
- Livelihoods risk
- Institutional access
- Income and expenditure details
- Past and future significant events at household (i.e. deaths, illnesses, or emergencies)
- Well-being of the family (in terms of health).

Another way of categorising credit risk mentioned requires financial institutions to do a 'five C's assessment':

- Character: examine character and commitment of the principals/borrowers/company
- Capacity: review ability of potential clients to repay debt (as evidenced by historical financials, cash flow projections and the credit history of company, principals, guarantors, co-signers) and managerial capabilities of the financial institution's owners and management team
- Collateral: require clients to pledge their business assets or personal properties as collateral to secure or back up the loan request
- Capital: equity contribution or financial investment
- Creditworthiness: past credit history and performance on previous loans.

Additionally, based on experiences working with urban SHG federations in Madurai, suggestions were

made to use the following indicators when developing a tool:

- Place of origin, timeline of their settlement(s) (especially in urban areas)
- Purpose of the loan—productive vs. unproductive use. Sometimes risk can be higher if the loan is not for income generation
- Who the ultimate beneficiary is (i.e. immediate or extended family member) as the risk is higher if the loan is for an extended family member
- Type of documentation provide, to ensure it is 'proper'.

Participants also shared the experiences of a technology service provider working with rural banks in Philippines. The provider designed a unique credit assessment module that takes into consideration the socio-economic factors of the borrowers such as income, expenditure, age, number of dependents, which feed into a grading system that helps to indicate the appropriate loan amount and ability to repay.

In addition, members discussed potential causes for risk related to the borrower's external environment, which need considering, such as changes in the political environment or governmental policy, because they can affect the members/SHGs behaviour or attitude towards the MFI programme. Additionally, they cited unfavourable weather conditions as another risk that affects the ability of the borrowers to repay their loan, as many borrowers depend on agriculture for their income.

Moreover, respondents touched upon the issue of "willful default" as a major risk facing institutions lending to high-risk populations such as the very poor. Members mentioned mis-identification of beneficiaries that happens when the loan amount is not proper and is often the cause of "willful default." They noted that this phenomenon also occurs frequently in the formal sector, even when banks/formal financial institutions follow the most rigorous screening and identification of borrowers. Therefore, discussants felt this is not a unique problem to microfinance lending (either for consumption loans or loans for income generation). Additionally, discussants highlighted that microfinance methodology and products, compared to the mostly straight jacketed, product-driven methodology of the formal financial sector, are flexible and tend to benefit from the group lending approach and social collateral, which work to protect against "willful default."

Finally, members noted there are few experiences from India with credit assessment tools for microfinance, and highlighted that international examples could be drawn from for identifying effective indicators. They also felt it might be more productive to assess the borrower's credit potential and utility, because it would go beyond just risk and look at how to make the borrower more eligible for credit. Respondents concluded by emphasising the importance of any tool that would assist formal financial institutions to address the national challenge of financial inclusion and reach out to "unbanked" populations.

Comparative Experiences International

(from L. B. Prakash, Akshara, Hyderabad; response 1)

Myanmar (Burma)

Assessing Creditworthiness with Client Scoring System

The UNDP-UNOPS microfinance programme developed a Client Scoring System to assess creditworthiness using a combination of indicators, such as Client Performance (with the MFI) and Client Repayment Capacity (economic status). Ten percent of the clients scored an 'excellent' on the economic status indicator. To assess poverty levels, clients who score 'excellent' can be then classified as 'non-poor', above 'average' as borderline poor and below average.

Bolivia

Using Characteristics of Borrower to Predict Credit Risk

An MFI used a Client Scoring Tool to help predict if clients who were previously in 'arrears' would likely have trouble in the future. The tool also showed that borrowers who were manufacturers were about four percentage points riskier than traders were, and first-time borrowers roughly 1.2 percentage points riskier than second-time borrowers were. The MFI could then use this knowledge to target certain groups and/or to screen applicants.

Peru

Using Credit Scoring to Reduce Costs

Within the first year of deploying credit scoring, the MFI Mibanco reduced its loan origination costs by about 10 percent and it expects to save an additional 10–20 percent as it applies the scorecards to a broader range of products. In addition, loan officers will be required to make fewer manual decisions. ACCIÓN and Mibanco are now preparing to use this system

to develop more advanced credit-risk management applications and improve targeted customer-loyalty and re-acquisition initiatives.

Related Resources

Recommended Documentation

(from L. B. Prakash, Akshara, Hyderabad; response 1)

Credit Scoring for Microfinance: Can It Work?

By Mr. Mark Schreiner; Microfinance Risk Management and Centre for Social Development Washington University, St. Louis; November 2000

Available at http://www.microfinance.com/English/Papers/Scoring_Can_It_Work.pdf

Argues that credit scoring does have a place in the microfinance sector to assess credit risk of the borrower; discusses what types of risk to predict and reviews learnings from Bolivia.

Credit Scoring

By Daniel G. Salazar, with contributions from CGAP Staff and exchange, LLC; CGAP IT Innovations Series Elaborates on which institutions should use credit scoring, how credit scoring works, costs, requirements, cases of MFIs implementing scoring and lessons learned.

A Handbook for Developing Credit Scoring Systems in a Microfinance Context

microREPORT #66, prepared for USAID by Development Alternatives Inc.; February 2006

Available at http://www.microlinks.org/ev_en.php?ID=13456_201&ID2=DO_TOPIC

Guide for banks, MFIs and donors who are considering applying credit scoring; illustrates a four-step framework for designing and implementing custom credit scorecards.

A Simple Poverty Scorecard for India

By Mark Schreiner; Centre for Social Development, USA and Microfinance Risk Management LLC

Available at http://www.microfinance.com/English/Papers/Scoring_Poverty_India.pdf

Paper presents a poverty scorecard to help development programmes target services to the poor, track changes in poverty over time, and reports on the rate of poverty among clients.

(from Kris Dev, Life Line to Business, Chennai)

FINO Adopts Gemalto Smartcards to Accelerate Micro-Banking Deployment in India

PR Newswire, Press Release; June 25, 2007

<http://www.prnewswire.co.uk/cgi/news/release?id=201411>

Note on how Gemalto and FINO will be deploying smartcard technology with biometric authentication, which can possibly facilitate remittance services and credit risk assessment.

Smart Card System: Information and Communication Technology (ICT) plus Finance Model for Rural Poor

By S. Gupta; Microfinance Gateway; June 2002

http://microfinancegateway.org/files/3329_file_03329.rtf

Note discusses the strength of ICT in microfinance lending and highlights a computer based transaction-recording system (called BASIXPOT), introduced by BASIX in February 2002.

Defining Credit Risk

(from Kanti Kiran, CATALYST, Mumbai)

Wikipedia; July 20, 2007

Available at http://en.wikipedia.org/wiki/Credit_risk
Defines credit risk as the "risk of loss" due to a debtor's non-payment of a loan or other line of credit (either the principal or interest or both).

(from Anjum Khalidi, Research Associate)

Why Institutional Credit Agencies are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of the Indian Rural Credit Market

By B. Santonu; World Development, Vol. 25, Issue 2; February 1978

Discusses theoretical reasons for reluctance of formal financial institutions to lend to the rural poor such as high credit risk and seasonality of income.

Bank Lending Policy, Credit Scoring and Value at Risk

By T. Jacobson and K. Roszbach; Stockholm, Sweden: Stockholm School of Economics; July 1998

Available at http://microfinancegateway.org/files/2615_file_02615.pdf

Describes statistical methods for credit scoring, and finds that the current methodology adopted by many banks does not minimise default risk, and Value at Risk is a more suitable method.

Credit Scores to Help Poor Get Bank Loans

The Economic Times, New Delhi; December 27, 2006
Discusses the rating of poor borrowers' credit history to access financial services and the role of credit

information companies in providing references to MFIs and banks.

Recommended Organisations and Programmes

(from Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad)

Life Bank, Philippines

Roosevelt St. Sta. Barbara, Iloilo City 5002, Philippines; Tel: 033-523-9348; Fax: 033 523-9348; <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=2237>

Has worked with Elitser IT Solutions, a technology service provider, to implement its credit assessment module which includes a grading/rating system to determine risk.

G7 Bank, Philippines

Panganiban Drive, Concepcion Pequeña, Naga City 4400, Philippines; Tel: 6354-4737777; Fax: 6354-8117777; <http://www.g7bank.com/thebank.htm>

Bank has implemented the credit assessment module developed by Elitser IT Solutions, which has helped to determine the level of risk associated with lending to poor clients.

Elitser IT Solutions India Pvt. Ltd., Hyderabad

303, Aditya Trade Centre, Door No. 7-1-618, Aditya Enclave Road, Ameerpet, Hyderabad 500038 Andhra Pradesh; Tel: 040-23753232/1828; Fax: 040-23757676; <http://www.elitser.com/company-profile.html>

Develops technology solutions and provides technical support for credit assessment methodology for MFIs, NGOs and banks to improve operational efficiency.

Aga Khan Rural Support Programme, Madhya Pradesh

(from Manov Maity)

Behind Government Primary School, Near Central Warehouse Corporation Anand Nagar, Khandwa, Madhya Pradesh; http://www.akdn.org/India/ecodev_india.html#microfinance

Organisation works with high credit risk communities (i.e. tribals) in Madhya Pradesh to build borrower capacity to re-play previous loans and avoid defaulting on future loans.

(from L. B. Prakash, Akshara, Hyderabad; response 2)

Grameen Koota, Bangalore

Grameen Koota-Micro Finance Institution, JP Nagar,

9th Phase, Anjanapura Post, Avalahali, Off Knakapura Road, Near Khoday's Glass Factory, Bangalore-560062, Andhra Pradesh; Tel: 080-28436237; info@grameenkoota.org; http://grameenkoota.org/html/about_GK.asp

Piloted "Progress out of Poverty Indicators (PPI)" tool to assess the credit risk and poverty status of borrowers for better targeting of clients and to improve service delivery.

Grameen Foundation, USA

50 F Street NW, 8th Floor, Washington, DC-20001, USA; Tel: 1-202-628-3560; Fax: 1-202-628-3880;

Developed the PPI tool to target financial services to the poor, currently working with USAID to outline criteria to certify such poverty measurement tools.

Mibanco, Peru

Av. Domingo Orué N° 165, Lima 34, Peru; Tel: 511513-8000; Fax: 511513-8155; mibanco@mibanco.com.pe; <http://www.mibanco.com.pe/> (in Spanish)

One of the largest MFIs in Peru that has successfully reduced costs and improved its portfolio quality by using credit scoring.

EDA Rural Systems Pvt. Ltd., Gurgaon

602 Pacific Square, 32nd Milestone NH8, Gurgaon-122 001; Tel: 124 230 9707, 230 9497, 426 8707, 405 0739; Fax: 124 230 9520; http://www.edarural.com/research_impact_assessment.html

Led the piloting of PPI tool in India to assess poverty status and credit scoring of poor borrowers.

Dhan Foundation, Madurai

(from T. Asaithambi, Madurai Vattara Kalanjiam, Madurai)

18, Pillaiyar Koil Street, S.S. Colony, Madurai-625016, Tamil Nadu; Tel: 452-2610794/805; Fax: 452-2602247; dhan@md3.vsnl.net.in; <http://www.dhan.org/themes/kalanjiam.php>; Contact Mr. T. Asaithambi; haiasai79@yahoo.com

Organisation works with SHG federations in urban Madurai and has experience in credit risk assessment of borrowers for poverty targeting of financial services.

Evangelical Social Action Forum (ESAF), Trichur

(from Toms K. Thomas)

P. B. No. 12, Hephzibah Complex, Mannuthy, Trichur, Kerala-680651, Tel: 0487-2371472, 2373813; Fax:

0487-2371472; esaf@sancharnet.in; <http://www.esafindia.org/>

NGO-MFI having SPM Unit which looks at issues of quality and microfinance, including assessing credit potential of borrowers.

ACCION International, USA

(from Anjum Khalidi, Research Associate)

56, Roland Street, Suite 300, Charlestown, MA 02129 USA; Tel: 617-625-7080; Fax: 617-625-7020; <http://www.accion.org/products/Credit%20Scoring.pdf>

Helps MFIs to improve their loan evaluation processes by using historical information related to their clients and credit-related variables to calculate credit risks.

Recommended Tools and Technologies Progress out of Poverty Indicators (PPI)

(from L. B. Prakash, Akshara, Hyderabad; response 1)

Developed by Grameen Foundation USA

Contact Mr. L. B. Prakash at prakash.lb@gmail.com

Unique composite of 10 easy-to-collect,

country-specific, non-financial indicators to estimate the poverty levels of clients (with some outliers) and is applicable for both urban and rural contexts.

Recommended Portals and Information Bases India Statistics, Datanet India Pvt. Ltd.

(from Kanti Kiran, CATALYST, Mumbai)

<http://www.indiastat.com>

Source for Indian statistics, which can be used for data analysis when assessing credit risk of borrowers from a certain region.

Client Targeting Centre, Microfinance Gateway Resource Centre

(from Anjum Khalidi, Research Associate)

<http://www.microfinancegateway.org/section/resourcecentres/clienttargeting/targetingtools>

Contains resources on several poverty targeting tools developed to help MFIs target the poor, including the CASHPOR Housing Poverty Index.



Consolidated Reply

Query: Developing a Portfolio Risk Hedging Product–Advice

Compiled by Anand Kumar, Coordinator and Anjum Khalidi, Research Associate

Issue Date: 28 December, 2007

From Sarthak Gaurav, Centre for Insurance and Risk Management (CIRM), Chennai

Posted 31 August, 2007

I am a Consultant at the Centre for Insurance and Risk Management (CIRM) at IFMR, Chennai. I draw your attention to the Portfolio Risk Hedging product that we are developing as a part of our efforts to provide innovative micro insurance and risk management solutions for the sector.

The idea behind the product explores the possibility of bringing in an incentive mechanism for financial intermediaries to expand their outreach to geographies or communities, which they would earlier not venture into, based on their assessment of the risks associated through the provision of a Portfolio Risk Insurance product. It has been difficult to design such a product for several reasons, including the difficulty in establishing factors causing default, low default rates reported by MFIs, and absence of relevant data. Limitations of the re-insurance industry in financing extreme events have also led to the search for innovative financial solutions by linking risk transfer to capital markets. (The precondition here being a clear identification and segregation of risk, uncertainty and variability dimensions)

We additionally need a better understanding of liability risk management for a financial intermediary's credit portfolio. Here, a multidisciplinary approach could shed light on the challenges and opportunities ahead. Credit Scoring Models to better assess risks in rural credit markets are also being made with multiple objectives. Ways to factor out "risk reserves" from the pure premium calculations in an attempt to drive down interest rates/premium are also being experimented. Serious data limitations handicap most of these attempts. Finally, better underwriting

practices and robust risk management strategies are needed to enable lenders to take calculated risks.

As a part of understanding the feasibility of developing such a product, I would like to have your views on the following:

- What do MFIs consider as the biggest threats to their portfolio in a particular geography given the range of risks that their clients are exposed to?
- How do MFIs prioritise among these risks, if at all?
- Given the range of factors that drive delinquency/default or default risk in credit, do MFIs feel the need to insure the portfolio against tail-end shocks or other extreme events?
- What should be the incentives for an MFI to subscribe to a portfolio insurance scheme? What are the existing mechanisms of hedging for such risks? (Any comments on the effectiveness of the existing ones would be helpful as well)
- Alternatively, is there a certain in-built efficiency in the underwriting practices or group selection/screening processes, so that in spite of adverse shocks on livelihoods, the default rates or delinquency on MFI portfolios do not register a steep hike? What could be the possible explanations as per your experience?
- Regarding data recorded by MFIs: Given the extremely low default rates booked on the MFI lending portfolio, could you please inform us if MFIs keep record of the historic losses on their portfolio/impact on portfolio performance triggered by adverse events or default shocks, if any?
- Can this concept of a portfolio risk insurance product be linked to the securitisation and capital adequacy issues of financial intermediaries?

These issues could be well extended to the Regional Rural Bank's (RRB) scenario or any other entity that would be exposed to these risk vectors.

We have started discussions with NABARD, Reserve Bank of India, MFIs and other sector experts to explore the possibility of such a product being rolled out. Responses to this query are critical to the future of this innovative idea. Contributions made by members will be acknowledged in the concept note for this product. Looking forward to your valued response and suggestions.

Responses were received, with thanks, from

1. N. Jeyaseelan, Microfinance Consultant, Madurai
2. Prabhat Labh, CARE India, New Delhi
3. Sarthak Gaurav, Centre for Insurance and Risk Management (CIRM), Chennai
4. Baladeb Sen, Microfinance Consultant, Chennai

Further contributions are welcome!

Summary of Responses

In the relatively unexplored area of risk hedging in the microfinance sector, members shared their insights on potential threats to an MFI's portfolio, factors that drive delinquency/default, and listed incentives for MFIs to subscribe to a portfolio insurance scheme.

Respondents emphasised that while considering a risk-hedging product, organisations need to think about different scenarios that may affect an MFI's portfolio. As the insurance industry works on the law of probability, providing a payout in case of an event with a low probability of occurrence, members felt insurance works best in cases where "low probability-high impact events" are likely. They also explained that the moment an organisation moves towards "low probability-low impact events," the appeal of insurance diminishes, because for low-impact events, clients would be more inclined to bear the risk internally, rather than opt for insurance cover. Additionally, if an MFI opts for "high probability events," then insurance becomes less desirable as the cover will become unaffordable.

Members shared from their experience that the regular threats to an MFI's portfolio depend on the sectors in which the lending has been done. For example, if the MFI's portfolio is concentrated in dairying, the health risk of livestock will be a priority or if an MFI's major

portfolio is in crop production, the primary risks will be production risk and price risk. Likewise, if the area of operation is a drought prone area, the main concern will be rainfall risk. Therefore, based on the portfolio exposure to these risks, discussants recommended MFIs prioritise risks according to their portfolio.

Participants noted that MFIs generally do not feel the necessity to insure the portfolio against "tail-end shocks." However, once an MFI suffers severe portfolio losses or observes such losses happen to their neighbours, they are more motivated to get insurance. Additional research reveals certain models that have been developed in Bolivia which help to predict borrower delinquency.

Members felt that portfolio insurance could be a prudent way for an MFI to manage risk. However, there is hardly any experience with MFIs with this. Earlier, Government of India institutions have offered portfolio insurance to banks for small loans, however, the loan sizes were a minimum of Rs 5 lakh.

Discussions highlighted the lack of orientation, limited experience, and almost no analysis in this area, making it difficult to draw any conclusions regarding the possibility of in-built efficiency in the underwriting practices or group selection/screening processes causing default rates or delinquency to go un-documented by MFIs. They also stated that some MFIs do keep historic data on their portfolio losses and the impact on portfolio performance triggered by adverse events. Additionally, members suggested studying the challenges faced by the Deposit Insurance and Credit Guarantee Corporation, which had a guarantee scheme covering small loans given by banks, to better understand the situation.

Portfolio insurance, respondents felt, is for low probability high impact events. However, there are many things MFIs could do in-house to help better manage high probability low impact risk, but which cumulatively could possibly undermine the viability of operations:

- Diversification
- Cash flow based lending
- Suitability of lending products
- Larger bouquet of products to clients.

The insurance industry could also develop risk assessment criteria, which take into account the risk

management strategies implemented by MFIs and based upon that offer reasonably priced risk-hedging products to MFIs. Further, members suggested an MFI that has systematically looked at portfolio risk management strategies, should be able to get a lower premium from the insurance company as compared to one that has not attempted to deal with these issues.

Though there is relatively little experience in this area, members observe MFIs that have some minimum operational experience realise the impact loan defaults have on the health of their portfolio and have been experimenting with different products. They also are trying various methodologies to strengthen their portfolio by placing their “eggs in different baskets” (i.e. product/geographical diversification). While extensive research is being done in the Indian microfinance sector, respondents felt it would take some time for MFIs to appreciate the tangible benefits from hedging and portfolio cover.

Members also suggested that donors and lenders take the lead on risk management and hedging which working with MFIs to build up gradually the necessary awareness – at least those MFIs with a portfolio over a certain threshold to educate them on the importance of timely recognition of the issues and the compelling need for comprehensive portfolio insurance. In addition, insurance companies (both public and private) could design a set of innovative products for portfolio insurance, and pilot the products with MFIs at affordable costs. Participants felt that ideally this service would come from both the bulk-lending institutions as well as insurance companies who can eventually look at this as a business proposition, with excellent financial prospects.

Related Resources

Recommended Documentation

(from Anjum Khalidi, Research Associate)

Are MFIs Hedging Their Bets?

Article; CGAP Portfolio Issue 1; Washington, DC; April 2005

Available at <http://www.cgap.org/portfolio/archives/01/02.html>

Discusses the various challenges MFIs face when trying to manage portfolio risks.

Agri-Risk Fund to Mitigate Credit Risks

Article; Business Standard; Mumbai; May 26, 2004
Available at <http://microfinancegateway.org/content/article/detail/19300>

Write up on the suggestion by advisory committee of RBI for the Government to set up an ‘agri-risk fund’ to mitigate the risk of lending banks in case of defaults.

Risk Management: Pricing, Insurance, Guarantees

Paper; by E. Bryla, J. Dana, U. Hess and P. Varangis; BASIS-Broadening Access and Strengthening Input Market Systems; 2003

Available at http://microfinancegateway.org/files/11441_11441.pdf

Discusses innovative ways to deal with price and yield risk, and how farmers can cope with price risks; also suggests ways for financial institutions to combine hedging with lending.

The Risk of Exit by Borrowers from a Microlender in Bolivia

Paper; by Mark Schreiner; Microfinance Risk Management, USA and Centre for Social Development, Washington University in St. Louis, USA; 1999

Available at http://www.microfinance.com/English/Papers/Bolivia_Scoring_Exit.pdf

Paper analyses the risk of delinquency for MFIs and outlines models that can help predict risk of delinquency and drop-outs.

Recommended Organisations and Programmes

Deposit Insurance and Credit Guarantee Corporation, Mumbai

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

Marshall Building Annexe, 3rd Floor, Shooraji Vallabhdas Marg, Mumbai-400001, Maharashtra; Tel: 022-23084121; Fax: 022-23015662; dicgc@rbi.org.in; http://www.dicgc.org.in/html/abt_us.htm

Provides a guarantee scheme to MFI to insure small bank loans against external risks.

Market Risk Advisors (CMRA), United States

(from Anjum Khalidi, Research Associate)

600 Lexington Avenue, 30th Floor, New York, NY 10022, USA; Tel: 212-404-6100; Fax: 212-404-6110
info@cmra.com; <http://www.cmra.com/>

Firm specialising in risk management and hedge funds, provides resources which can help MFIs

understand their financial risks and ways to manage the risk.

Recommended Upcoming Events

Seminar on Impact of Positive Basis on Futures Hedging, Institute for Financial Management and Research (IFMR), Chennai

(from Anjum Khalidi, Research Associate)

December 28, 2007 24, Kothari Road, Nungambakkam, Chennai-600034, Tamil Nadu; Information available at www.ifmr.ac.in

Seminar will examine the hedge ratio as an important factor that determines the performance of a hedge during cross hedging.



Consolidated Reply

Query: Capability Assessment of Micro Insurance Providers–Advice

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate
30 May, 2007

From T.V. Ramesh, ALEgION Insurance Services Ltd, Chennai

Posted: 17 May, 2007

Dear Members,

I work with ALEgION Insurance Services Ltd., which is an insurance intermediary duly licensed by the Insurance Regulatory and Development Authority (IRDA). We play the role of an insurance facilitator/service provider for the rural sector. We are working with CARE India to develop a diagnostic tool to assess the capacity of an organisation to intermediate micro insurance interventions.

When the concept of micro insurance came into existence, many organisations engaged in microfinance activities started providing micro insurance services. However, not all of them were successful in their attempts, the reasons being non-suitability of the selected insurance product to meet the needs of the members, lack of expertise, inadequate knowledge about insurance products, lack of infrastructure to disseminate insurance products, lack of financial resources, distribution systems, information systems, reporting systems, etc.

While rating processes, procedures and tools have been developed to evaluate the efficiency of microfinance operations, this is not so with micro insurance since it is still a new sector comparatively. Thus, the diagnostic tool we are trying to develop will attempt to identify and address challenges to more efficient delivery of micro insurance services.

It would be a tool which, when applied to an organisation, would indicate, on the basis of several variables relating to capability, whether the

organisation has the wherewithal to handle micro insurance interventions. The tool would come in handy for an organisation to make a self-assessment or for rating by an external agency. In short, it would give a clear picture if the organisation is well-equipped to handle micro insurance interventions.

We would invite all members to please share their views on what parameters need to be taken into account while developing such a diagnostic tool. It would be helpful if you could also prioritise the various parameters.

Your response would help to evolve an accurate diagnostic tool, which could be applied by the organisations themselves and also by an external rating agency/organisation.

I am requesting you to respond on an urgent basis so that we can incorporate your suggestions while submitting our report to CARE by the end of the month.

Responses were received, with thanks, from

1. G. Gandhi, National Insurance Academy, Pune
2. Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai (Response 1; Response 2)
3. M. B. Subramanyamreddy, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad

4. Nitin Sharma, Sambodhi Research and Communications, New Delhi
5. Anjum Khalidi, United Nations, New Delhi
6. Swetan Sagar, EDA Rural Systems, New Delhi
7. Prabhat Labh, CARE India, New Delhi
8. Jyoti Gidwani, M-CRIL, New Delhi
9. François-Xavier Hay, UpLift India Association, Pune

Further contributions are welcome!

Summary of Responses

Responding to a query seeking advice on suggested parameters to help design a diagnostic tool for capacity assessment of micro insurance providers, members provided several criteria to indicate the ability of an organisation to deliver micro insurance in a cost-effective and sustainable manner.

Respondents emphasised that a statistically robust, handy and objective tool is needed, which can gauge the capability of an organisation to provide micro insurance services. A micro insurance rating tool could be similar to rating tools used to assess microfinance agencies. This tool, respondents advised, would examine an organisation's capacity to manage insurance operations by assigning scores against criteria such as governance, management, systems, outreach as well as giving a composite score. However, this approach requires a near-exhaustive listing of indicators that may affect the final score. Members highlighted that typically such microfinance tools follow a hierarchy — all indicators that determine the performance of MFI are broadly clubbed together and then constituted into a rating/index.

In addition, each criterion and indicator is assigned weights, determining the extent to which it influences the final score. This process can be subjective, and respondents recommended using statistical techniques at each step to identify and club indicators, and to determine objectively the weight of each indicator and criterion.

Internationally, various organisations have developed different tools to assess the performance and capacity of microfinance service delivery and a recent workshop on performance of micro insurance indicators resulted in a standard set of indicators, intended to assess the performance of providers. Learning from these experiences, members suggested that a new diagnostic tool would ideally contain few broad

parameters with detailed indicators for measuring/rating the capability of an organisation to deliver micro insurance services. They recommended the tool must assess organisations along the following lines:

Governance

- Are there good governance practices in the institution for delivering financial services?
- Is there transparency in the delivery of financial services and when communicating to clients?
- Does the organisation have a transparent corporate strategy?
- What is the composition and experience of its Board and is there a resolution from the Board indicating intent to offer micro insurance services?

Systems

- Does the organisation have the systems required to function as a micro insurance intermediary?
- Are robust Management Information Systems (MIS) in place?
- What risk management, risk-transferring mechanisms and internal controls have the MFIs established?
- Is an appropriate infrastructure available in terms of workforce, Information Community Technology, geographic presence/decentralised branch network to reach out to the poor?
- Does the organisation have proper systems in place to promptly handle claims?
- Has the organisation set up an internal audit mechanism?

Capacity

- Does the organisation have experience in micro insurance service provision?
- Are there conceptually sound/trained staff members available to focus on micro insurance delivery?
- Is there a strategy for long-term organisational sustainability and is senior management committed?
- Does the organisation have the ability to collect and incorporate client feedback?
- How does the company invest its earnings into other productive activities?
- Does the organisation have the risk taking ability/capacity to offer appropriate services and versatile products to meet the needs of the poor?
- Does the organisation engage in market research in niche market segments to meet client needs?

Environment

- Can the MFI manage its external environment and comply with regulatory standards?
- Does the organisation receive support from international agencies/donors?
- What is the level of maturity and stability of SHGs that the organisation reaches out to?

Performance

- How is the organisation's financial performance as an insurance intermediary in terms of financial ratio?
- Is the organisation's product marketing approach efficient and sustainable?
- Does the organisation educate its members/potential clients on products and benefits of risk pooling and solidarity in a transparent manner?
- Does the organisation deliver its services in a cost-effective manner?
- What is the impact felt by target group/excluded community receiving micro insurance services?
- Does the MFI have significant operational experience (i.e. how many years has it been operating)?

A critical criteria for the success of a micro insurance provider, respondents highlighted, is the extent to which the organisation is capable of continually collecting and analysing feedback from its clients to modify its product offering/processes. They cited Self-Help Promoting Institutions as examples of agents who may not be financially robust, but are effective in marketing micro insurance products since their clients' interests are paramount when designing, negotiating and marketing a product.

In addition, members advised MFIs keen to offer insurance services could enter into collaborations with formal insurance companies that are regulated and have the expertise to design products, underwrite the risk, conduct actuarial analysis, product pricing, absorb losses and have efficient delivery and claim settlement systems. However, they cautioned that although the risk is written in the insurer's books and MFIs are only agents, MFIs also carry the underwriting role which consists of "selecting" risks on behalf of the insurer. Respondents suggested any diagnostic tool also address the differing roles, functions and competencies of insurance intermediaries and micro insurance distribution channels which lead to cost-effectiveness.

Finally, members agreed that as the sector grows, clients/insurance buyers, agents, brokers, and investors would require/demand an objective tool to determine the financial soundness and creditworthiness of insurers. While listing indicators to create a diagnostic tool, they noted there are still challenges to developing statistically sound tools, which MFIs engaging in micro insurance delivery must address.

Related Resources

Recommended Organisations

CARE - Credit and Savings for Household Enterprise (CASHE) Programme, New Delhi

(from Ramesh S. Arunachalam, *Microfinance Consulting Group, Chennai; response 1*)

27, Hauz Khas Village, New Delhi-110016, Tel: 011-26566060; Fax: 011-26564081; <http://careindia.org/ManageProgrammeKey/VisitProgrammeDetail.aspx?ProgrammeKeyID=84>

Developed the Partner Capacity Assessment Tool (PACT) which contains an elaborate process to determine a potential partner NGO's capacity to deliver microfinance services.

Uplift Health, Pune

(from François-Xavier Hay)

Swabhimaan, 14 Landmark Apartment, BJ Road Sadhu Vaswani Circle, Pune-411001, Maharashtra; Tel: 20-2605-1013; <http://www.upliftindia.org/activities/health-mutual-fund>

Association of MFIs, of which three have initiated 16 health mutual funds and adopted the approach of transferring risks as opposed to sharing risks.

Sambodhi Research and Communications, New Delhi

(from Nitin Sharma)

Contact: Kultar Singh, CEO, F-40, LGF, Kalkaji, New-Delhi-110019, Tel: 011-40560734/65492502; kultar@sambodhi.co.in; <http://www.sambodhi.co.in/>

Working on developing tools for organisations venturing into micro insurance and micro-pension as well as impact assessment tools of microfinance interventions at the client level.

Standard & Poor's, New Delhi

Hindustan Times Bldg., 9th Floor, 18-20 Kasturba Gandhi Marg, New Delhi-110001, Tel: 11-2372-1603; Fax: 11-2372-1605;

Independent provider of credit ratings, information on mutual funds and equity research; practices transparency by sharing its criteria for credit ratings and indices publicly.

Microrate, United States

(from Swetan Sagar, EDA Rural Systems, New Delhi)

3300 North Fairfax Drive Suite 202, Arlington, VA 22301, USA; Tel: 703-243-5340; Fax: 703-243-7380; <http://www.microrate.com/rat-metho.html>

Rating agency for MFIs adopting risk-based analysis to assess the financial and operational viability of an MFI.

(from Anjum Khalidi, United Nations, New Delhi)

ACCION International, Bangalore

No. 64-A, 5th Cross, Lavelle Road, Bangalore-560001, Karnataka; Tel: 080-41120008; Fax: 080-41120009; <http://www.accion.org/camel.asp#training>

ACCION CAMEL team conducts assessments and provides training for third parties interested in learning how to apply the CAMEL assessment tool.

Planet Rating, France

13 Rue Dieumegard, 93400 Saint Ouen, France; Tel: 33-01-49-21-26-30/31; Fax: 33-0-1-49-21-26-27; <http://www.planetrating.com/en/>

Specialised microfinance rating agency that has developed the GIRAFE evaluation tool to promote an international standard to measure the performance of MFIs.

Belgian Raiffeisen Foundation, Belgium

Philipssite 5B10, 3001 Leuven, Belgium; Tel: 32-0-16-27-96-77; Fax: 32-0-16-27-96-91; <http://www.cera.be/brs/EN/>

Works on solidarity-based banking and insurance in the developing world and is actively engaged in developing performance indicators of micro insurance.

Recommended Documentation

Delta Life: Bangladesh

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai; response 2)

By M. J. McCord and C. Churchill; CGAP Working Group on Micro insurance, Good and Bad Practices, Case Study No. 7

http://microfinancegateway.org/files/25381_file_Delta.pdf

Case study shares lessons from the Delta Life's experience in micro insurance in Bangladesh, which attempted claims segmentation to improve micro insurance operations.

Microrating International (MRI)

(from Swetan Sagar, EDA Rural Systems, New Delhi)

Press Release MicroRate; February 2007

<http://www.microrate.com/archivos/MICRORATING%20INTERNATIONAL.pdf>

Collaboration of MicroRate and M-CRIL represents over 70 percent of the microfinance ratings conducted and will offer a standardised rating product that spans the globe.

(from Anjum Khalidi, United Nations, New Delhi)

Performance Indicators for Micro insurance Practitioners

Appui au Developpement Autonome, Workshop Report, Luxembourg; October 16-17, 2006

<http://www.microfinance.lu/comas/media/onlineindicatorsws.pdf>

Elaborates on key dimensions of micro insurance analysis and details the indicators that were an outcome of the workshop held to identify micro insurance performance indicators.

PEARLS Monitoring System

By David C. Richardson; World Council of Credit Unions, Toolkit Series No. 4; October 2002

<http://www.woccu.org/pdf/pearls.pdf>

Document serves as a manual for the PEARLS system and its indicators; tool used to evaluate several financial institutions worldwide.

Transparency for Microfinance Development

Planet Rating; August 2005

http://www.planetrating.com/documents/presentation_en.pdf

Document details the various services offered and its methodology for evaluating the operational and financial efficiency of MFIs.

Recommended Portals and Information Bases

The Microfinance Gateway–Micro insurance Focus Resource Centre

(from Anjum Khalidi, United Nations, New Delhi)

http://microfinancegateway.org/resource_centres/insurance/

Portal managed by CGAP Working Group on Insurance highlights sound practices in insurance through the exchange of knowledge & experience, provides tools, case studies, reports & articles.

Related Past Consolidated Replies

Delivery of Micro Insurance Services

(from Ajaya Mohapatra, We The People, New Delhi (Experiences) Issued 25 April, 2007)

Provides case studies and models for distribution channels of micro insurance and key lessons for efficient implementation of micro insurance schemes.

Alternative Micro Insurance Products and Delivery Mechanisms

from Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Experiences) Issued 30 May, 2007

Provides information on various delivery mechanisms and best practices in providing micro insurance and includes case studies on innovative products and technology solutions.

5



Enabling Policy and Institutional Environment for Microfinance

Synthesis Paper 5

The enabling policy and institutional environment for microfinance deals with the aspects of conducive Acts, Laws and guidelines for the functioning and regulation of microfinance at one end. At the other, it concerns funding to microfinance institutions (MFIs), strategies and mapping at macro and micro levels and platforms which facilitates the networking and linkages between the different players of microfinance.

The Microfinance community initiated 12 discussions on these issues including a discussion on RBI's mobile phone payment guidelines. In the present context microfinance Community of Practice also found important to discuss micro insurance, including the innovative concept of 'Health Mutuals' and, therefore, undertook six discussions which also covered regulatory aspects of micro insurance. These issues are covered in microfinance products, services and delivery mechanism. The objective to address financial inclusion agenda and fulfillment of poverty alleviation goals articulated in MDGs through change in policy and institutional environment has been a priority for the microfinance community.

Taking an overview of microfinance policy environment, and issues raised by the community members in different forums and Resource Group meeting, the proposal of microfinance bill 2007¹ was one of the most important policy initiatives to unify, standardize and consolidate the regulations in one framework with due consideration of legal entities of different microfinance players. The Government has yet to finalize and enact it. An analysis of the situation reveals the fact that the commercial banks, Regional Rural Banks, Cooperatives Banks, local area banks and other private banks, are covered under Banking Regulation Act and also RBI's regulations related to microfinance. The National Bank for Agriculture and Rural Development (NABARD) supervises and regulates the banks working in rural areas and also play a key role as promoter and wholesale financier for banks and MFIs for microfinance services. The Non-Banking Finance Companies (NBFCs) engaged in microfinance are being regulated by RBI however not-for profit companies (Section 25 Companies) are

complying with the Registrar companies Act and not regulated stringently by the RBI. The NGOs, Trusts and other not-for-profit institutions functioning as financial intermediaries are also out of the purview of the direct supervision of the RBI and waiting for the microfinance bill. In this scenario introduction of a suitable Microfinance Bill is the need of the sector.

Members of the community have also realized the importance of having a close review of the issue of microfinance and cooperative Acts. It is a fact that the regulatory scenario for Cooperatives, including Mutually Aided Cooperative Societies is more complex as each state has its own cooperative Act. These Acts vary in nature across the states. Few states like Uttarakhand have two Acts – the Self Reliant Cooperative Societies Act and also the pre-existing Cooperative Act. Still, these cooperatives functioning as MFIs are out of the purview of regulatory ambit of RBI. The Resource Group also realized the importance of this issue to be taken up in Microfinance Community of Practice.

The regulations for savings has due importance in the present scenario of microfinance on which community members discussed extensively. The present regulations restrict a variety of MFIs such as NBFCs, NGO-MFIs for taking savings from the public. If NBFCs are permitted to mobilize savings, the resources can be utilized to provide financial services to the vulnerable sections of people at affordable interest rates. The Microfinance India - State of the Sector Report 2008² clearly informs the regulator's perspective of not permitting numerous small institutions to mobilize savings in order to give protection to poor considering factors like interest rates, continued availability of credit, quality of service and security of savings. RBI has introduced Business Correspondent (BC) model so that through banks, adequate safety to the deposits of poor is provided. Recently, RBI has allowed BC to appoint sub-agents thereby addressing financial inclusion agenda. The community has elaborated well on the legal aspects of savings mobilization in the discussions and also contributed for state of the sector report.

¹ Ministry of Finance, *The Micro Financial Sector (Development And Regulation) Bill, 2007* (Bill No.41 of 2007) placed in Lok Sabha, New Delhi, 2007

² Srinivasan, N., *Microfinance India - State of the Sector Report 2008*. New Delhi: Sage Publications, 2008, pp.101-107

Remittances services have become important for the MFIs dealing with migrant labour and people living in remote areas. This demands a clear regulation related to the technologies and mechanisms for it. Community members identified mobile phone banking as an effective medium for remittance services and also contributed in finalization of RBI's guidelines³ on mobile banking transactions by sharing knowledge and experiences in a specific discussion. RBI's clear guidelines³ will facilitate MFIs to accelerate mobile banking activity for faster financial inclusion.

Funding arrangements to the microfinance institutions (MFIs) is an issue external to microfinance core environment. The Community assessed various funding models and arrangements such as a 'Debt funding model', 'Partnership Model' and funding arrangements used by apex government institutions and socially motivated venture capitalists. These models differ on the extent of sharing of risks by the funding institutions, form of financial support like bulk loans, grants, quasi equity, equity capital and loan guarantee funds. Some provide additional support for capacity building and setting up operational management systems. Community provided information on funding options and the benefits.

The connecting platforms which facilitate the funding agencies, Social Entrepreneurs/MFIs and the investors to meet for networking and collaborations, strengthen the external support environment of MF. Members of the community identified such platforms that can act as 'Financial Solution Exchanges' which reduce the transaction costs for social entrepreneurs and investors, and provide distinctive knowledge to help funding agencies and microfinance institutions (MFIs)/NGOs satisfy their unique needs. Mapping of the microfinance scenario based on different parameters is extremely relevant today in context of financial inclusion. Community members prudently visualized the parameters such as client outreach, credit demand and loans disbursed; district-wise income, education, population density, poverty levels of the households; availability of NGOs, MFIs, SHGs, Government programmes on microfinance, lending models, SHGs-bank linkages, credit deposit ratios and people covered under insurance programmes, etc., so as to use the information for the strategising and mapping district-wise microfinance plans.

Need for sustainable organizational structures at various levels in different states and their linkages

with a national level body to create a 'web of sustainable networks' has already been identified by the microfinance practitioners. Many of the Self-help Promotion Institutions/MFIs including Government promoted institutions formed federations at different levels for a variety of purposes such as - Filling up of financial and non-financial need gaps; creating a 'self-sustaining community based systems' for poverty alleviation, microfinance and women empowerment; and also as a part of withdrawal strategies. Discussing SHG federations and the issue of undertaking multiple functions, the Community emphasized that federations need to enable true empowerment of women by using a holistic approach. NABARD incorporated federations as potential beneficiaries of micro Finance Development and Equity Fund (mFDEF)⁴ thereby confirming its support for the development of federation system of SHGs. The Community is also discussing aspects of a National federation of SHGs regarding its establishment, possibilities of funding, role and functions of the National Advisory Council, Legal entity of the federation and sustainability.

Retention of human resources in microfinance sector is important in the competitive microfinance environment, therefore, an incentive system and retention strategies for MFI staff are required. To strategise at the macro level, the Community suggested that assessment of the HR needs can be done through a diagnosis, using data from an appropriate sample of MFIs as well as feedback from industry leaders.

On the basis of an analysis of the issues discussed and the unanswered questions related to policy and institutional environment, the community will keep its focus on the Microfinance Bill, National federation of SHGs and revision of Cooperative Acts for Microfinance. RBI has taken steps to create a framework for money lending and legitimize its operations under controlled conditions. Since money lending is a state subject and state legislatures can legislate on the subject, a draft Money Lending Act has been developed for the use of state Governments. The Microfinance community would take up such issues in the discussion forum. Other areas of the community's concern would be 'Fair Trade' practices in microfinance and regulations for 'Health Mutuals' and savings services. The Community also plans to focus on the issues like credit information bureau and innovations which strengthen the microfinance structure and external support environment.

³ RBI, *Mobile Banking Transactions in India - Operative Guidelines for Banks*, RBI, Mumbai, 2008

⁴ NABARD, *Circular on - Scheme for Capital/equity support to microfinance institutions (MFIs) from MFDEF*, 2007

I.
***Funding and Strategies for the Growth of the
Microfinance Sector***



Consolidated Reply

Query: Partnering with Financial Institutions for Microfinance Services–Referrals

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate

Issue Date: 12 January, 2007

From Manab Chakraborty, Mimo Finance, Dehradun

Posted 22 December, 2006

Dear Members,

I am Manab Chakraborty, CEO of Mimo Finance, a MFI, which commenced operation in Dehradun on 9 November, 2006 to coincide with the celebrations marking the sixth anniversary of establishment of Uttarakhand state. Our mission is to strengthen the economic capacity of urban and rural micro and small business operators to ensure their economic self-reliance through a whole range of services, both financial and non-financial. Over the next three months, we propose to add small enterprise segment with demand for credit under Rs. 50,000. Also, we propose to roll out life and loan cover insurance products, and by September 2007, an easy to use system of remittances transfer. For more details, please visit: <http://www.mimofin.com>.

We are presently working in Dehradun and surrounding foothills of Uttarakhand. The area is chosen because of its high population density, good communication facility, and growing opportunities for the poor due to urbanisation, and economic boom. We propose to open branches in Mussoorie, Haridwar, Najibabad, and Haldwani in the next six months. We aim to reach one million households in North India by March 2015. Currently, we provide loans ranging between Rs. 4,000 and Rs. 30,000 to SHGs, JLGs and individual businesses. These loans are made to people who otherwise are not able to access banks, and are at the mercy of moneylenders. We provide loans at the doorstep, without any guarantee and make collections through easy weekly and monthly installments. We have introduced participatory,

learner-centric, need oriented training, and mentorship services to all our clients, training on group formation, accounting, and basic management are offered free of charge.

Our average loan and portfolio size is continuously increasing. This requires infusion of serious debt capital. Since, we borrow from the banks at 10-12 percent per annum, our rates tend to be higher than banks but half of that of the moneylenders. We have tied up with Friends of Women's World Banking, Ahmedabad and ICICI Bank.

To achieve our goals, we would like to reach out to other banks and financial institutions to introduce variety in our product range, and access cheaper sources of credit for our clients. We would request members of this Community to provide us with names of nationalised banks and foreign banks where we could source credit for our clients, along with contact details of relevant persons at these banks.

Inputs from members would greatly support our activities. I would like to thank you in advance and wish you all for the New Year!

Responses were received, with thanks, from

1. Rakesh Malhotra, NABARD, Jaipur
2. Manoj K. Sharma, MicroSave India, Lucknow
3. Vigyan Gadodia, YES BANK, Ghaziabad
4. Abhijit Ray and Abhilash G. Mudaliar,

UNITUS, Bangalore

5. Abhay Kanjekar, Bharatha Swamukti
Samasthe, Bangalore

6. Sachin Kumar, UNDP, New Delhi

Further contributions are welcome!

Summary of Responses

Responding to a query seeking information on financial institutions as sources of credit for MFIs, members shared the names of numerous organisations and individuals that MFIs could contact in order to access debt and equity capital. This information highlighted that there are different types of institutions extending financial support to MFIs through various modes of operation and a variety of products.

Additional research on the operational models of financial support to MFIs provided by public and private sector banks in India reflected that some banks view lending to MFIs as a commercially viable and sustainable opportunity. These banks go beyond the targets for priority sector lending set by India's Central regulatory bank for foreign and domestic banks. They extend debt capital to MFIs, who in turn utilise the funds provided by banks, to "on-lend" to their economically active poor clients and to meet their own operational expenses. Based on the credit risk assessments of MFIs, banks decide the loan criteria i.e. loan amount, interest rate, collaterals and repayment terms. The collaterals can be in the form of hypothecation of assets, personal guarantees, and fixed deposits. Repayment schedules are fixed on a monthly, quarterly and annual basis based on the MFIs' cash flows. This 'debt-financing model' places the credit risk of lending to the poor mainly on the MFIs.

Another model used by banks is a "partnership model" where banks and MFIs share the credit risk as in the case of a private bank. In this model, banks leverage the staff, office space and local reputation of the MFIs, which are involved in loan origination, credit appraisal, loan disbursements and recovery. Banks present the loans to the ultimate borrowers on their balance sheet and MFIs carry a First Loan Default Guarantee (FLDG) – the FLDG amount fixed by the bank, depending on the credit risk assessment of the MFI.

Moreover, banks also provide/facilitate training and capacity building support to MFIs for setting up better financial and operational management systems.

Additional research also demonstrated some financial institutions and donors with development objectives are extending funding support to MFIs to meet the costs of capacity building. Members shared the example of a government apex institution, which has set up a microfinance development and equity fund to meet the costs for internal capacity building, operational deficits, staff training and equity demand of MFIs. Similarly, a development finance institution promoted the Foundation for Micro-Credit to provide a range of financial services to MFIs like bulk loans, grants, and quasi-equity and equity capital. MFIs get quasi-equity (also known as transformation loan) when they are in the process of transforming their existing structures into more formal and legal set-ups. The quasi-equity also has a feature of conversion into equity after a specified time if the MFIs attain certain structural, financial and operational benchmarks. Development funding institutions also tend to organise various training workshops and exposure visits, designed to build the capacity of their staff for managing their institutions more efficiently and effectively.

Respondents discussed socially motivated venture capitalists (individual and institutional) working to address MFIs' equity constraints by enabling them to leverage external debt funds. They also provide loan guarantee funds to MFIs for getting loans from banks through the "partnership model." Moreover, venture capitalists offer grants to set up management information systems, internal control systems, and training and capacity building for staff.

The specific public sector, commercial private and foreign banks, development oriented financial institutions, offshore donor agencies and social venture capital funds in India mentioned by members are listed in the Recommended Contacts (including organisations) section below.

Related Resources

Recommended Contacts and Experts

Shashi Shrivastava, Relationship Banker, ABM AMRO Bank

(from Rakesh Malhotra, NABARD, Jaipur; Manoj K. Sharma, MicroSave India, Lucknow)

Sakhar Bhavan, 4th floor, Nariman Point, Mumbai-400 021, Tel: 91-22-56372401; Microfinance@in.abnamro.com; <http://abnamro.co.in/ProductsServices/MicroFinance/mf.html>

Private multinational bank providing term loans to MFIs to lend to poor women in India, especially in rural areas.

Dr. G. Gourisankar, Assistant Vice President-Credit, UTI Bank

(from Manoj K. Sharma, MicroSave India, Lucknow)

6th Floor, Maker Towers 'E', Cuffe Parade, Colaba, Mumbai-400005, Tel: 91-022-67074407 Fax : 91-22-2218 6944/22181429; <http://www.utibank.com>

Private bank "on lending" debt funds to MFIs at competitive market interest rate for providing microfinance services to urban and rural poor.

A. Vikraman, Chief General Manager, SIDBI

(from Rakesh Malhotra, NABARD, Jaipur; Manoj K. Sharma, MicroSave India, Lucknow)

SIDBI Tower, 15, Ashok Marg, Lucknow-226001, Tel: 91-522-2288547/8/9/50; avikraman@sidbi.com; sfmclho@sidbi.com; <http://www.sidbi.in/Micro/index.htm>

SIDBI Foundation for Micro Credit (SFMC) nurtures and selects potential MFIs as long term partners and provides credit for their microfinance services.

Aseem Gandhi, Assistant Vice President-Rural and Micro Banking, YES Bank

(from Vigyan Gadodia; from Abhijit Ray and Abhilash G. Mudaliar, UNITUS, Bangalore)

Nehru Centre, 9th floor, Discovery of India, Dr. A. B. Road, Worli, Mumbai-400018, Tel: 91-22- 6669 9000; Fax: 91-22-24900314; aseem.gandhi@yesbank.in; <http://www.yesbank.in>

Private bank using MFIs as intermediaries to deliver microfinance services to the poor besides setting up its own microfinance subsidiary for direct financing to the urban poor.

(from Abhijit Ray and Abhilash G. Mudaliar, UNITUS, Bangalore)

Sundar Rao, General Manager, Manaveeya Holding Private Ltd.

Plot 47, Navanirmannagar, Jubilee Hills Rd. 71, Hyderabad-50033, Tel: 91-40-23554729; Fax: 91-40-23554729; office.in@oikocredit.org; oikocreditindia@rediffmail.com; http://www.oikocredit.org/documents/India_Leaflet.pdf

Indian subsidiary of Oikocredit (a global development financing institution) providing bulk loans, equity investment and guarantees to MFIs for imparting microfinance services.

Pragna Kolli, Relationship Manager, Hong Kong and Shanghai Banking Corporation (HSBC)

2nd Floor, HSBC 52/60, M.G. Road Fort, Mumbai-400001, Tel: 91-22-226853740; pragnakolli@hsbc.co.in;

Multinational private bank, provides credit facilities to MFIs through its debt-financing programme for "on-lending" microfinance services to the urban and rural poor.

Kishore Kumar, Head-Agriculture and Microfinance, HDFC Bank

Kamla Mills Compund, Senapati Bapat Marg, Mumbai-400013, Tel: 91-22-24902853/2900; kishor.kumar@hdfcbank.com; <http://www.hdfcbank.com>

Private Indian bank gives financial support to MFIs under its wholesale banking services, in order to reach economically active poor through microfinance services.

Uma Deb, Assistant Vice President-Microfinance Group, CitiBank

Mail Room, Shakti Towers, 766 Anna Salai Post Office, Chennai-600002, uma.deb@citigroup.com; <http://www.citigroup.com/citigroup/citizen/microfinance/index.htm>

Multinational bank providing microfinance grants to MFIs for enhancing skills set of their employees besides helping MFIs in expanding outreach of microfinance services.

B. Srinivas, Manager-Microfinance, ABM AMRO Bank

Sakhar Bhavan, 4th floor, Nariman Point, Mumbai-400 021, Tel: 91-22- 56372401; srinivas.bonam@in.abnamro.com; Microfinance@in.abnamro.com; <http://abnamro.co.in/ProductsServices/MicroFinance/mf.html>

Private multinational bank providing term loans to MFIs to lend to poor women in India, especially in rural areas.

Daksha N. Shah, Head-Credit Programme, Friends of Women's World Banking

(from Manab Chakraborty, Mimo Finance, Dehradun; Abhijit Ray and Abhilash G. Mudaliar, UNITUS, Bangalore)

101, Sakar 1 Building, Opp. Gandhigram Station, Ashram Road, Ahmedabad-380009, Gujarat; Tel: 91-79-26584199; Fax: 91-79-26580119; fwwbindia@fwwb.net; <http://www.fwwbindia.org>

Affiliate of Women's World Banking provides loan funds and capacity building services to its partner MFIs for strengthening and expanding their microfinance services.

(from Abhay Kanjekar, Bharatha Swamukti Samasthe, Bangalore)

Jim Kaddaras, Developing World Markets

800 Post Road, 3rd floor, Darien, Connecticut-06820, USA; Tel: 1-203-655-5453; Fax: 1-203-656-9528; jim@dwmarkets.com; administrator@dwmarkets.com; http://www.dwmarkets.com/experience.htm

Investment bank arranges financing from the capital markets for socially beneficial business in emerging markets including microfinance sector in India.

Ratnakar Shetty, IndusInd Bank

701/801 Solitaire Corporate Park, 167, Guru Hargovindji Marg, Andheri - (E), Mumbai-400093, Tel: 91-22- 56412200; Fax: 91-22- 56412224; rathnakara@indusind.com; mktg@indusind.com; http://www.indusind.com

Indian commercial bank capitalising market opportunities in microfinance sector by lending to MFIs.

Vishwanath Prasad, Co-founder of Bellwether Fund, The Bellwether Microfinance Fund

(from Sachin Kumar, UNDP, New Delhi)

III Floor, 8-2-596, Road No. 10, Banjara Hills, Hyderabad-500034, Tel: 91-40- 66460505/5883 Fax: 91-40-66465884; info@bellwetherfund.com; http://www.bellwetherfund.com/product.html

Fund makes equity and debt investments in MFIs, seeking competitive return on equity while preserving the core principle of poverty alleviation.

Vishal Mehta, General Manager, Lok Capital

(from Sachin Kumar, Research Associate)

11, Golf Links, New Delhi 110003, Tel: 91-11-24691900; vmehta@lokcapital.com; http://www.lokcapital.com

Socially responsible venture fund providing equity capital and capacity building support to MFIs, thus facilitating the delivery of microfinance services to the poor.

Recommended Organisations

(from Abhijit Ray and Abhilash G. Mudaliar, UNITUS, Bangalore)

UNITUS India, Bangalore

India Microfinance Centre, 64-A, 5th Cross, Lavelle Road, Bangalore-560001, Tel: 91-80-41120008; Fax: 91-80-41120009; http://www.unitus.com www.unitus.com/sections/aboutus/aboutus_os_selection_main.asp

Venture capital firm providing capital and consultancy services to help create large-scale poverty focused sustainable MFIs.

ING-Vyasya Bank, Bangalore

No. 22, Ground Floor, ING Vyasya House, M G Road, Bangalore-560001, Tel: 91-80-25005006/9;

Fax: 91-80-25581156; ruralsbu@ingvyasyabank.com; *Private bank supplies microfinance services directly through SHGs and along with ING Green Finance grant loans to MFIs.*

Bharat Overseas Bank, Chennai

Habeeb Towers, 196 (Old # 756), Annasalai, Chennai-600 002, http://www.bharatoverseasbank.com/press.asp?id=52; http://www.bharatoverseasbank.com

Scheduled commercial bank in the private sector planning to support microfinance sector to reach the "un-banked and under-banked" regions of the country

Industrial Credit and Investment Centre of India (ICICI) Bank, Mumbai

(from Manab Chakraborty, Mimo Finance, Dehradun)

ICICI Bank Towers, Bandra-Kurla Complex, Mumbai 400051, Tel: 91-22-26536425; Fax: 91-22-26531233; http://www.icicibank.com

Private bank giving term loans to MFIs and leverages social and physical infrastructures of MFIs to disburse microfinance services through partnership model.

Michael and Susan Dell Foundation

(from Sachin Kumar, UNDP, New Delhi)

Email Caitlin Baron for more details; http://www.msdf.org/priorities/MSDFIndiaMicrofinanceFINAL.pdf *Aims to catalyse microfinance in India cities by providing start-up capital to budding and growing MFIs that provide microfinance services in urban slums.*

(from Rakesh Malhotra, NABARD, Jaipur)

Rashtriya Mahila Kosh (RMK), New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 91-11-23354619/20/28; Fax: 011-23354621; ed_rmk@nic.in; http://www.rmk.nic.in/chap3a.htm

Government institution acting as a wholesaler channelising funds from government and donors to retail intermediate microfinance organisations.

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.

State Bank of India, Mumbai

Tulsini Chamber, 1st Floor, West Wing, 212, Free Press Journal Marg, Nariman Point, Mumbai-400021, Tel: 91-22-22820427; Fax: 91-22-22820411; crpd@sbi.co.in; <http://www.sbi.co.in>; <http://www.statebankofindia.com/viewsection.jsp?lang=0&id=0,8,67>

Nationalised public sector bank lending to NGO/SHG Federations on selective basis for provisions of microfinance services to SHGs.

Bank of Baroda, Mumbai

Star House, C-5, "G" Block, Bandra-Kurla Complex, Bandra (East), Mumbai-400051, Tel: 91-22-66684444; cmd@bankofbaroda.co.in; <http://www.bankofbaroda.com>

Nationalised public bank provides loans under its priority sector-lending department to SHG Federations and MFIs to offer microfinance services to the poor.

Punjab National Bank, New Delhi

Head Office, 7, Bhikaji Cama Place, New Delhi-110066, Tel: 91-11-26196459/8; Fax: 91-99-26196176; cmd@pnb.co.in; <http://www.pnbindia.com>

Nationalised bank providing loans through its priority-lending cell to SHG Federations and MFIs supplying the poor with access to microfinance services.

Oriental Bank of Commerce, New Delhi

Harsha Bhawan, E- Block, Connaught Place, New Delhi-110001, Tel: 91-11-23417121/6691; Fax: 91-11-23415591; http://www.obcindia.com/knowus/knowus_aboutus.html

Under its Grameen Project, the Bank provides loans to SHGs in Dehradun (Uttarakhand) and Hanumangarh (Rajasthan) to meet consumption and production needs of the poor.

Recommended Documentation

(from Sachin Kumar, Research Associate)

ICICI Banks for the Poor in India: Demonstrates that Serving Low Income Segments is Profitable

By Annie Duflo; UNCDF, Microfinance Matters, Issue 17; October 2005

http://uncdf.org/english/microfinance/newsletter/pages/2005_10/news_ICICI.php

Article explaining ICICI Bank's microfinance initiative designed to reach low income groups through partnership models, working with various venture capitalists.

Building a Reliable MFI Funding Base: Donor Flexibility Shows Results for BASIX in India

By Paul Dileo; CGAP, Donor Good Practice Case Study No. 5; 2003

Case study explains how donor flexibility enabled an MFI to secure mix of capital required for long-term growth, in order to provide sustainable microfinance services to the poor.

Microfinance in India: A State of the Sector Report

By Prabhu Ghatge; CARE and Ford Foundation; 2006 <http://microfinanceindia.org/Docs/Sector%20Report.pdf>

Chapter 7 and 8 of the report cover the status of microfinance programmes in various commercial banks, developmental financial institutions and social venture funds.

India's Banks are Big on Microfinance

By Nandini Lakshman; BusinessWeek; August 22, 2006 http://www.businessweek.com/smallbiz/content/aug2006/sb20060822_940979.htm

Article discusses the growth prospects in India's microfinance sector including different public and private banks entering the sector.

Recommended Portals and Information Bases

(from Sachin Kumar, Research Associate)

MicroSave India Database

<http://www.microsaveindia.org/frmSuppliers.aspx>

Providing supply side of Indian microfinance sector including nationalised public sector banks, commercial private banks and private wholesalers.

The MixMarket

List of microfinance investors in India along with total fund assets, percentage of funds allocated to microfinance investments and number of active microfinance investments.



Consolidated Reply

Query: Funding Landscape for Start-Up MFIs–Referrals

Compiled by Anand Kumar, Coordinator and Anjum Khalidi, Research Associate
Issue Date: 27 March, 2008

From Sachin Kumar, MicroSave, Lucknow

Posted 26 February, 2008

Dear members,

We at MicroSave aim to provide training and technical assistance services to MFIs as well as financial institutions that aim to deliver client responsive financial services to the working poor at the competitive market price. We have already developed over 20 training toolkits for microfinance service providers in India, which can be viewed at our website (<http://www.microsave.net>) and can also be downloaded for free.

Since our entry in India in 2004-05, we have received several requests from start-up MFIs seeking details of different financial institutions, their products (e.g. debt, equity, grants, soft loan etc.), and their financial terms and conditions. Currently there is no database of financial institutions/bankers with clearly stated product offerings and conditions for start-up MFIs in India. In this regard, we are trying to build a database of all national and international financial institutions in the following format:

Name of the Institution:

Name of Contact Person:

Telephone Number:

Contact Email ID:

Please also state whether any other terms or conditions apply (such as a moratorium period). It is also important to know whether the financing institution is providing finance for all types of legal set-ups or if they are targeting any particular institutional model such as Non-Banking Financial Companies (NBFCs), non-profits, etc, or if the financial institution has any sectoral focus. This way it will be easier for the MFI to approach the appropriate institutions. Please also share any relevant comments or additional information that would be useful for start-up MFIs seeking financial support.

We are very hopeful that the Microfinance Community of Solution Exchange would help in the development of such a database that can be later used by the start-up and budding MFIs. This database would be in the public domain and would be available on our website <http://www.microsave.net>.

	Services/Products available for start-up MFIs	Repayment period	Interest rate	Other service fees (e.g. processing fee)
Loan	Yes/No			
Soft-loan	Yes/No			
Grant	Yes/No			
Any other product	Yes/No			

Responses were received, with thanks, from

1. Pon. Aananth, HDFC Ltd., Coimbatore
2. B. Srinivas, ABN AMRO Bank N. V., Hyderabad
3. Binota Loitongbam, FWFB India, Ahmedabad
4. Chandni Ohri, Grameen Foundation, Washington, D.C., USA
5. Rakesh Das, LAMP Fund - BASIX, Ranchi
6. Aparajita Agrawal, Intellectual Capital Advisory Services (Intellectap), Mumbai

Further contributions are welcome!

Summary of Responses

The range of funding sources in the microfinance sector has changed dramatically within the last five years and continues to grow exponentially. A database is being built of all national and international financial institutions, to enable start-up MFIs to gain access to various types of financial support. Responding to a query requesting data on the various products and services offered to start-up MFIs and other organisations in their growing phase, members shared information on the products offered by different types of institutions and also discussed issues related to start-up MFIs seeking financial support.

In addition to reporting on the repayment period, interest rate and other service fees related to the various products offered, respondents shared information regarding the type of institutional models (i.e. NBFCs, non-profit making institutions, etc.) the financiers are looking for. Some participants responded from commercial banks, which are open to several institutional formats but prefer MFIs that

are registered as NBFCs. Others from non-profit organisations outlined their initiatives that provide support to small enterprises, by providing financial and business development services. They also shared information on a unique opportunity – a business plan competition for start-up and established MFIs seeking financial support on the strength of their ideas.

Additionally, members suggested including information in the database regarding the kind of security/guarantee that is being requested for the loans by different lenders.

Participants also shared several bottlenecks faced by the upcoming or start-up MFIs in achieving efficiency and scale in promoting a large number of livelihoods, especially for the rural poor which are:

- Lack of capital adequacy to operationalise microfinance in a sustainable manner.
- Insufficient access to initial lending funds to build a substantial customer base to attract support from mainstream financial institutions.
- Inadequate understanding of livelihoods and knowledge base on addressing livelihood issues.

Finally, additional research on the topic, explored in depth the status of financing in the microfinance sector from commercial banks, venture capital funds, and apex financial institutions, with a specific focus on growing, small and nascent MFIs.

Despite limited responses, the discussion proved enriching, with members emphasising the usefulness of the database initiative for nascent MFIs, given their rapid growth recently, and for the larger sector, which is working to promote inclusive financial services.

Additional Material

The following chart is a compilation of the institutional responses using the format specified in the query.

	Services/Products available for start-up MFIs	Repayment period	Interest rate	Other service fees (e.g. processing fee)
The Housing Development Finance Corporation (HDFC) Ltd.				
Loan Product 1	Yes – for the purpose of micro enterprise development	2-3 years	Competitive & linked with HDFC's Corporate Prime lending rate	No fee but MFIs should keep 10% of their loan amount as FD towards MFI's margin money with HDFC & the line should be marked to HDFC

Loan Product 2	Yes - for the purpose of Housing up gradation & New House construction (In case of new house construction the maximum loan amount is Rs. 75,000)	2-3 years (up gradation) & 5-10 years for new house construction	Competitive & linked with HDFC's Corporate Prime lending rate	No fee but MFI should keep 10 % of their loan amount as FD towards MFI's margin money with HDFC & the line should be marked to HDFC
ABN AMRO Bank N.V.				
Loan	Yes	18-24 months	Market rates (currently around 11.50-12.50% p.a.)	0.25-1.00%
Soft loan	No	N/A	N/A	N/A
Grant	No	N/A	N/A	N/A
Any other product	No	N/A	N/A	N/A
Friends of Women's World Banking				
Loan	Standard loan	18 months	11.5%	No
Soft loan	NA	N/A	N/A	N/A
Grant	Yes	N/A	N/A	N/A
Any other product	Short term loan	3-6 months	11.5 to 12 %	No
Indian Grameen Services				
Grant (Rs. 50,000 to 100,000 for maximum 2 year tenor)	For nascent/newly established organisations	NA	NA	(i) Initial cost of establishment; (ii) Training of MFI promoter/CEO; and (iii) livelihood needs assessment in operational area
Livelihood promotion Product I containing loan+grant (Loan up to Rs. 1,000,000 & grant range is 50,000 to 75,000 for maximum 2 year tenor)	For emerging organisations in their growth phase	Moratorium period is 6 months & quarterly principal repayment (Interest repayment every month)	15% with max incentive slab of 3% (Performance incentive parameters are governance, authenticated MIS & OTRR)	(i) Training of MFI promoter/CEO; and (ii) livelihood needs assessment in operational area
Livelihood promotion Product II (Loan up to Rs. 1,500,000 & grant range is Rs. 100,000 to 200,000 for maximum 3 year tenor)	For established organisations/MFIs	Moratorium period is 6 months & quarterly principal repayment (interest repayment every month)	15% with max incentive slab of 3% (Performance incentive parameters: governance, authenticated MIS & OTRR)	(i) Training of key staff (ii) Exposure visits for key staff (iii) Design of livelihood intervention plan
Return-able grant (Grant up to Rs. 200,000 to 500,000 for maximum 7 year tenor)	For emerging organisations in their growth phase	2.5% of principal amount in every quarter for first 2 years & thereafter equal quarterly installment	NA	(i) Expanding MFI customer base for their microfinance & livelihood programme (ii) Automation of MIS at multiple locations

To download the PDF version of the chart, please click on the link:
<http://www.solutionexchange-un.net.in/mf/cr/res26020802.pdf>

Related Resources

Recommended Organisations and Programmes

Srijan Microfinance Business Plan Competition 2008, Mumbai

(from Aparajita Agrawal, Intellectual Capital Advisory Services Pvt. Ltd. (Intellectap), Mumbai)

512, Palm Spring, Malad Link Road, Malad (W), Mumbai-400064, Maharashtra; Tel: 22-40359204/222; <http://srijan2008.com/srijan.html>; Contact Aparajita Agrawal; Associate Vice President; Tel: 22-32535292, 28801572; aparajita@intellectap.net

Awards entrepreneurs/organisations for their innovative plans to address the challenges faced by the microfinance sector with a vision to create an inclusive financial sector.

Commercial Banks

Housing Development Finance Corporation (HDFC) Ltd, Bangalore

(from Pon. Aananth)

HDFC House, HDFC Ltd., No. 51, Kasturba Road, Bangalore Karnataka; http://www.hdfc.com/we_development.asp; Contact Harish Khare; Tel: 080-41183000/41183232

Offers two loan products to start-up MFIs; prefers MFIs registered as trusts, societies, Section 25 companies, NBFCs and cooperatives.

ABN AMRO Bank N.V, Hyderabad

(from B. Srinivas)

6-3-248/1/1/A, Road No. 1, Banjara Hills, Hyderabad-500034, Andhra Pradesh; Tel: 040-66661234; Fax: 040-55663131; <http://www.abnamro.co.in/ProductsServices/MicroFinance/mf.html>; Contact Mr. B. Srinivas; Tel: 40-66575450; srinivas.bonam@in.abnamro.com

When providing loans to start-up MFIs, some of the factors ABN AMRO assesses include the institution's promoters, feasibility of the business model, and transformation plan.

Non-Profit Organisations

Friends of Women's World Banking (FWWB), Ahmedabad

(from Binota Loitongbam)

101, Sakar- I Building, Opp. Gandhigram Station, Ashram Road, Ahmedabad-380009, Gujarat; Tel: 91-79-26580119/4199/4082; Fax: 79-26580119; fwwbindia@icenet.co.in, fwwb@dataone.in;

http://fwwbindia.org/site/what_we_do.html

Engages in wholesale microfinance lending; and has also launched a pilot project for Livelihood and Enterprise Development (LEAD) providing funding and business development services.

Indian Grameen Services (IGS), Hyderabad

(from Rakesh Das, LAMP Fund-BASIX, Ranchi)

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 40-30512500/30512501; Fax: 40-30512502; <http://www.basixindia.com/igs.asp>; Contact Rakesh Das; Tel: 9470193126, 651-2244720; rakeshdas@basixindia.com

Created by BASIX as a Section 25 Company, IGS conceptualised a Livelihood and Microfinance Promotion Fund to provide financial services and build the capacities of start-up MFIs.

Recommended Upcoming Events

Microfinance Cracking the Capital Markets – South Asia, New Delhi, 29-30 April, 2008

(from Anjum Khalidi, Research Associate)

Conference sponsored by ACCION International and Standard Chartered Bank. Information available at <http://southasia.crackingthecapitalmarkets.com>

Conference covers the current regulatory environment; recent microfinance deals in South Asia; and the changing role of donors and development banks in financing MFIs.

Recommended Documentation

(from Anjum Khalidi, Research Associate)

Microfinance in India – A State of the Sector Report, 2006

Annual Report; by Dr. Prabhu Ghate et al; CARE, Swiss Agency for Development Cooperation and Ford Foundation; 2007

Available at <http://www.microfinancegateway.org/content/article/detail/36347>

Presents the latest developments of the Indian microfinance sector; specifically highlights financing from commercial banks, equity investors and apex institutions for start-up MFIs.

Microfinance in India – A State of the Sector Report, 2007

Annual Report; by Dr. Prabhu Ghate; Independent Researcher; ACCESS Development Services, Swiss

Agency for Development Cooperation and Ford Foundation; 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/res26020801.pdf>

Covers latest issues, recommendations and achievements of the Indian microfinance sector; highlights the SBLP and federations as financiers.

Related Consolidated Replies

Partnering with Financial Institutions for Microfinance Services, from Manab Chakraborty, Mimo Finance, Dehradun (Referrals). Microfinance Community. Issued 22 December, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-22120601.pdf>

Provides list of financial institutions and contact persons as sources of debt and equity capital for MFIs.



Consolidated Reply

Query: Selection/Support of Small NGO MFI Start-ups–Experiences

Compiled by Anand Kumar, Coordinator and Anjum Khalidi, Research Associate

Issue Date: 27 December, 2007

From N. Jeyaseelan, Microfinance Consultant, Madurai

Posted 4 December, 2007

Dear Members,

I believe in “Small is Beautiful”. During my tenure as Project Manager in IBSUM (Indian Bank’s Special Unit for Microfinance), Paramakudi and Usilampatti branches, I have supported small start-up NGOs, for initial two to three years as the promoters of those NGOs which were Committed, Transparent and Client focused (CTC). I did not assess their balance sheets as they did not have anything on them, but only valued their CTC. After 3-5 years now, most of the NGOs have stabilised and now they are managing around 150 to 500 SHGs. Hence, the support during the start up phase is crucial and the criteria for assistance should not be based on financial track record. Many small start-up NGOs who transform as MFIs find it very difficult to raise capital or get capacity building grants in the initial and difficult start-up phase as the financial institutions, and often donors, demand two years track record for supporting these new MFIs.

I have recently been thinking of promoting a concept of setting up a structured programme to support start-up NGO MFIs to enable small NGOs in underserved areas to develop themselves as small MFIs.

In this context, I would request members to share their experiences on:

- What should be the assessment criteria for selection of NGOs for start-up assistance?
- What type of help do small start-up MFIs require, such as preparation of business plans?
- Can apex institutions help such development of NGO MFIs by designing some "start-up loan

products” exclusively for small start-up MFIs? This would be an appropriate requirement since bigger MFIs have access to funding from financial institutions often beyond their absorption capacity or capital adequacy limits.

- Palli Karma Sahayak Foundation (PKSF) in Bangladesh helps small MFIs in a proactive way with a very professional and pragmatic approach. Is there any possibility in the Indian context to build such a promotional agency exclusively for start-up, small MFIs?

Member's responses and experiences would add great value in supporting the next generation of MFIs in the sector, which need support in order to reach our national goals of financial inclusion.

Responses were received, with thanks, from

1. Baladeb Sen, Microfinance Consultant, Chennai
2. Kedareswar Choudhury, Darabar Sahitya Sansad, Bhubaneswar
3. Girija Srinivasan, Consultant, Pune
4. G. K. Agrawal, Rural and Micro-Finance Consultant, Mumbai
5. Falguni Lokhil, Cohesion Foundation Trust, Ahmedabad
6. Ravinder Singh, LAKSHYA for Sustainable Development, Noida
7. Byomkesh Mishra, ABN AMRO Foundation India (AAFI), Lucknow
8. Sachin Kumar, CARE, Gujarat

9. N. Suresh Swami, Evangelical Social Action Forum (ESAF), Trichur
10. Ramesh Savalia, Centre for Environment Education, Ahmedabad
11. Prabhat Labh, CARE India, New Delhi
12. Perwinder Singh, Indian Institute of Management (IIM), Bangalore
13. N. Srinivasan, Consultant- Rural Finance, Pune
14. Pravin Kumar, CAPART, New Delhi
15. Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur

Further contributions are welcome!

Summary of Responses

Members shared a wealth of knowledge and experiences regarding the selection and support, needed to assist small start-up NGO-MFIs. They also discussed the need for financial support along with capacity building to help small start-up NGO-MFIs grow institutionally and improve their efficiency. Discussants noted the lack of systemic support systems available for small NGOs and emphasised the need to provide capacity building support and technical assistance in order to strengthen the provision of microfinance services for greater financial inclusion.

The SBLP has demonstrated small NGOs can play a very proactive role in making financial services available to the poor, due to their commitment and nearness to the grassroots level. Respondents argued the major challenge faced by small NGOs is the lack of initial start-up loan funds and the inability to attract support from mainstream banks. For this, they require initial capacity building and resource support as well as orientation on resource management techniques.

Participants suggested the assessment criteria for selection of NGOs for start-up assistance include the profile of the NGO promoters along with the management system it is using. Good governance, management practices, and financial management systems also need consideration. Members highlighted the PACT tool as an example of a comprehensive assessment framework for appraising the functioning of an NGO-MFI.

In the sector today, there exist a wide range of microfinance promoters including small NGOs, social entrepreneurs and community-based institutions and

each of these organisations requires different kinds of assistance. Respondents noted that NGOs and community-based institutions require, apart from initial capital, considerable technical assistance, which includes help in establishing governance systems, developing business plans, setting up accounting and MIS, and finding funding sources. NGOs would also need small grants of between Rs. 15-40 lakh and intense technical assistance requiring an investment of Rs. 20-30 lakh per NGO over three years. In addition to grants, access to a revolving loan fund has shown great success in enabling NGO-MFIs to grow exponentially.

Along with financial planning assistance, members pointed out the need for assistance with strategic and operational planning. For strategic planning, they specified the necessity of having a good understanding of the market. Regarding operational planning, members emphasised identification of appropriate products and services as well as marketing channels as the required support. Support is also needed for financial projection for the sustainability of the organisation. Participants shared examples of foundations and agencies providing support to small start-up MFIs in Uttar Pradesh, Gujarat and Delhi.

Respondents also highlighted the fact that all NGOs need a good project framework, with transparent funding cycles, effective activity implementation, and strong monitoring, evaluation and feedback systems. Some additional areas that require attention are:

- Objectives and articulation of the NGO's mission (to prevent possible "mission drift")
- Legal and economic context of the NGO when planning interventions in the field
- Human resource structure, so that NGOs are able to retain staff with professional expertise.

Along with the above, members emphasised the importance of small NGOs having a firm understanding of the connection between daily activities and macro level objectives. Furthermore, they noted that some medium sized NGOs require support as well.

Additionally, members discussed the fact that some apex organisations in the sector have developed a few loan products for start-ups and recommended that not just apex institutions, but all commercial banks set aside some funds (5% to 10% of targeted investment corpus) for this type of high-risk investment.

Regarding the question of whether there is any scope in the Indian microfinance sector to build a promotional agency like Palli Karma Sahayak Foundation (PKSF) in Bangladesh exclusively for small start-up MFIs, members highlighted that the Micro Finance Development and Equity Fund (MFDEF) was set up-with this intention.

At the same time, discussants underscored that given the different history, evolution and status of microfinance in India, a national level institution like PKSF might not be the right choice for the Indian microfinance sector. Instead, they suggested formal sector players in the country could play a bigger role since they have enough resources to pilot a few innovative loans and other support programmes to support strong start-ups and help them achieve sustainability.

Overall, members stressed the challenges many institutions coming from a non-profit background face in raising start up capital/funds to invest in institutional development. The problem is that since they have not attained good financial performance indicators, they are not able to get good credit rating and investment funds from commercial banks. Moreover, because they are not able to access these funds, they are not able to improve their performance indicators and attain 100 percent Operational Self-Sufficiency (OSS).

Therefore, members felt that to get out of this Catch-22 trap, catalytic support is necessary where emphasis is less on financial performance indicators and more on the organisation's mission and social performance. They also emphasised that apart from start-up loan funds, small NGOs need the skills and techniques of financial management, business planning, portfolio management, and product development. However, mere training and exposure alone will not be productive. Mentoring, providing hand holding support and nurturing a core team in those organisations over a period is also required.

Comparative Experiences

Gujarat

Gram Nidhi Project Providing Holistic Rural Financing and Building Local Capacities, Jasdan Area, Rajkot District

(from Ramesh Savalia, Centre for Environment Education, Ahmedabad)

The Centre for Environment Education is implementing the Gram Nidhi model of microfinance, which unlike

traditional SHG-based micro-credit programmes, employs a holistic sustainable livelihood approach. By providing extension services and marketing support throughout the production process, the Gram Nidhi project has successfully built sustainable and viable enterprises (creating Eco-entrepreneurs) and also created local community centres that function as both a library and resource centre.

Multiple States

Building Capacities of Small NGO-MFIs, Lucknow

(from Byomkesh Mishra, ABN AMRO Foundation India (AAFI), Lucknow)

In 2006, AAFI started implementing a programme to provide technical assistance to emerging MFIs. In the first phase, it initiated capacity building work with six MFIs in Uttar Pradesh, Bihar and Assam. As a result of the first phase's success, AAFI and MicroSave are currently in the selection process (phase two) to provide technical assistance to 35-40 MFIs over the next three years in Uttar Pradesh, Uttarakhand, Bihar, Jharkhand, Maharashtra and states in the northeast.

Credit and Savings for Household Enterprise (CASHE) Project, New Delhi

(from Prabhat Labh, CARE India, New Delhi)

The CASHE project provided comprehensive support to 34 small partner MFIs in West Bengal, Orissa, Andhra Pradesh and Madhya Pradesh including technical assistance, grants and Revolving Loan Funds. The project now has an aggregate client base of over 800,000 and a combined outstanding loan portfolio of almost Rs. 500 crore. As a result, some of the NGOs have emerged as leading NGO-MFIs (i.e. Gram Utthan, Pragathi Seva Samity, Sreema Mahila Samity, BISWA, KRUSHI, and Seva (Warangal)).

Related Resources

Recommended Documentation

Gram Nidhi Project

(from Ramesh Savalia, Centre for Environment Education, Ahmedabad)

Project Document; by Mr. K. Mohan Krishna, Savalia Ramesh and Rathod Suman; Centre for Environment Education; Ahmedabad

Available at <http://www.ceeindia.org/esf/download/paper2.pdf>

Works to provide a holistic rural financing by building the capacities of communities, providing

extension services and training to individuals to strengthen local enterprises.

Partnership Capacity Assessment Tool (PACT)

(from Prabhat Labh, CARE India, New Delhi)

Note; CARE India/ACCESS Development Services, New Delhi

Available at <http://www.solutionexchange-un.net.in/mf/cr/res04120701.pdf>

Note on CARE's framework to assess the functioning of NGO-MFIs: governance, management, human resources, financial management, microfinance services, performance, external relations, etc.

Capacity Building for Small Business and Microfinance Banks

(from Anjum Khalidi, Research Associate)

Technical Assistance Report; Asian Development Bank (ADB); June 2007

Available at <http://www.adb.org/Documents/TARs/REG/39593-REG-TAR.pdf>

Report details the challenges, approach and learnings of ShoreCap Exchange Corporation, supported by the ADB, which worked to strengthen 10-15 MFIs over a period of five years.

Recommended Organisations and Programmes LAKSHYA for Sustainable Development, Allahabad

(from Ravinder Singh)

99 A/1 Benigunj, Near ADC Law Branch, Allahabad-211016, Uttar Pradesh; Tel: 532-2618510; ravinder.lakshya@gmail.com; www.lakshya-allahabad.blogspot.com

Small NGO that is starting microfinance operations in eastern Uttar Pradesh.

ABN AMRO Foundation, India (AAFI), Lucknow

(from Byomkesh Mishra)

ABN AMRO Bank N.V., Sakhar Bhavan, 4th floor, Nariman Point, Mumbai-400021; http://www.abnamro.com/about/sd/sd_foundation.cfm

Founded in 2005, AAFI is implementing a programme known as "Technical Assistance (TA) to emerging Microfinance Institutions" to support and build capacities of small NGO-MFIs.

ACCESS Development Services, New Delhi

(from Sachin Kumar, CARE, Gujarat)

28, Hauz Khas Village, New Delhi-110016, Tel: 011-26510915; Fax: 011-26564081

Legacy institution of the CASHE project, ACCESS is a technical support agency building capacities of small NGO-MFIs in Rajasthan, Orissa, Madhya Pradesh, Andhra Pradesh and Tamil Nadu.

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

(from Baladeb Sen, Consultant, Chennai; Kedareswar Choudhury, Darabar Sahitya Sansad, Bhubaneswar; Prabhat Labh, CARE India, New Delhi; and G. K. Agrawal, Rural and Microfinance Consultant, Mumbai)

Plot No. C-24, G Block, Bandra Kurla Complex, Mumbai-400051, Maharashtra; Tel: 022-26530084/9272; Fax: 022-26528141; mcid@nabard.org; <http://www.nabard.org/microfinance/developmentfund.asp>

Bank allocated Rs. 200 crore to the Micro Finance Development and Equity Fund (MFDEF) to provide start-up funds and capacity building support to small NGO-MFIs.

(from Girija Srinivasan, Consultant, Pune)

Friends of Women's World Banking (FWWB) India, Ahmedabad

101, Sakar-I Building, Opposite Gandhigram Station, Ashram Road, Ahmedabad-380009, Gujarat; Tel: 79-2658-0119; Fax: 79-26580119; http://fwwindia.org/site/capacity_building.html

Provides technical assistance and capacity building inputs to MFIs, through formal technical trainings on managing microfinance programmes and exposure visits to organisations with best practices.

Rashtriya Mahila Kosh (RMK), New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 011-23354619; Fax: 011-23354621 ed_rmk@nic.in; <http://www.rmk.nic.in/chap3a.htm>

Wholesale apex organisation, which channels funds from the GoI and other donors to retailing intermediate MFIs and builds their institutional capacity.

SIDBI Foundation for Micro Credit (SFMC), Lucknow

SIDBI Tower, 15, Ashok Marg, Lucknow-226001, Uttar Pradesh; Tel: 522-2288547; sfmclho@sidbi.com; <http://www.sidbi.com/Micro/mfi.htm>

Apex wholesaler providing a range of financial and non-financial services such as loan funds, grant support, equity and institution building support to small MFIs.



Consolidated Reply

Query: Coverage of India's MFIs and SBLP, from SDC, New Delhi and CMF, Chennai—Advice

Compiled by Sumeeta Banerji, Resource Person, additional research provided by Sachin Kumar, Research Associate

Issue Date: 15 November, 2006

Original Query: Sarah Djari, CMF, Chennai and Adrian Marti, SDC, New Delhi (Advice)

Posted: 30 October, 2006

On behalf of the Swiss Agency for Development and Cooperation (SDC) and Centre for Micro Finance (CMF), it is a privilege to be able to launch the first query to the members of Solution Exchange's new Microfinance Community.

The Microfinance India Conference, which is supported, by both CMF and SDC is an excellent moment to reflect on the state of microfinance in India today and we hope that the Sector Report launched at the conference will allow a more in-depth discussion on the challenges ahead in reaching more comprehensive financial inclusion for the poor.

The issue of outreach remains one of the most important issues for enhanced financial access for the poor, which is we presume is the goal of all the members of this community.

To better illustrate this, SDC and CMF have undertaken a mapping exercise of the outreach of the two most important models of microfinance delivery in India today: SBLP and MFI model. The results of this first mapping exercise can be found at the link <http://ifmr.ac.in/cmfmSUsdc>.

This was a preliminary exercise, mainly led to get practitioners' feedback and only captured the data of a few (yet the largest) MFIs who decided to respond. As can be seen, the map provides basic information on two parameters – active borrowers and amounts

outstanding – for the 15 major MFIs in India. Information is also provided on the presence of SHGs, and on the percentage of female population covered by SHGs and the top MFIs.

- It is our intention to make this map as useful as possible to the Microfinance Community. Accordingly, we would like your thoughts on what additional information would you require to make it even more valuable? We will update this map by December 2006 after incorporating your feedback and the March 2006 figures for both the SHGs and MFIs. With the fast changing nature of this sector we are aware that this will have to be adapted to the most recent ground reality.
- Secondly, the map already makes clear that the coverage of MFIs is concentrated more in the southern part of the country. What are some of the ways to expand the reach of MFIs, private sector banks and venture capital providers to the more underserved regions?

We look forward to your responses and hope that this query will allow the platform to take off in the best possible way.

We would like to take this opportunity to thank NABARD, Sa-dhan and the participating MFIs, who provided the data for this map.

Let's together make this community a success to reach our goal of financial inclusion.

Responses were received, with thanks, from

1. Neeraj Sharma, ACCESS/CARE, New Delhi
2. Sachin Tendulkar, Mineral Foundation, Goa
3. Satya Chakrapani, One World South Asia, New Delhi
4. Debadutta Kumar Panda, Mohanty and Panda Associates Pvt Ltd, Orissa
5. Kamal Kant Tripathy, Ministry of Food Processing Industries, Government of India, New Delhi
6. Toms K. Thomas, Development Consultant, Kerala
7. S. Victoria Nefa, Poverty Learning Foundation, Andhra Pradesh
8. Sayantan Bera, Jawaharlal Nehru University, Delhi
9. Nilanjan Dasgupta, State Institute of Panchayat and Rural Development, West Bengal
10. Veena Yamini, Byrraju Foundation, Andhra Pradesh
11. Tamal Sarkar, UNIDO, New Delhi
12. Islam Husain, PAHAL, Uttarakhand (Response 1, Response 2)
13. Sachin Bansal, Centre for microFinance, Jaipur
14. Subhash Mendhapurkar, SUTRA, Solan

Further contributions are welcome!

Summary of Responses

The query showing the presence of MFIs and SBLP on the map of India, had members sharing views on the utility, limitations and scope for further value addition in the mapping exercise. They commended the joint effort of SDC and CMF in conducting a mapping exercise, and pointed out that the exercise is insightful and provides a bird's eye view of the overall presence of different government and non-government run microfinance programmes in India. It is a good starting point and would help practitioners understand the overall growth status and outreach of MFIs and NGOs. Respondents were of the view that although NABARD's database on SBLP is comprehensive, a centralised database for MFIs/NGOs with microfinance activities was required and a regular updation of information for such a database could be done in collaboration with MFIs/NGOs.

In addition to the parameters of client outreach and amount of outstanding loan, members suggested inclusion of other indicators and information that

would enhance the value of the mapping exercise to various stakeholders. These include:

- Map poverty indicators (income, education, population density etc.) per district and overlaid with the maps having district wise SHG. This would give an overview of the effect of microfinance on the socio-economic status of clients. Besides mapping district wise poverty levels of the households would help to understand if the supply of financial services is reaching the people who are generally excluded and is contributing to the growth of family's economy.
- Include information from as many MFIs beyond the current 15 largest MFIs, NGOs with substantial microfinance activities and Mutually Aided Cooperative Societies to make the database comprehensive. In case of MFIs, the Lending Model used (Individual, Joint Liability Group etc) could also be highlighted in the state map.
- Include data on the total number of SHGs in a State based on the groups formed at least by major stakeholders, and provide an estimate of average size of SHGs representative of that state. This would be helpful in cross-learning about the advantages and disadvantages of different membership size in SHGs. Add SHG savings data (bank deposit) in the map to help calculate Credit Deposit Ratio (CD ratio) for SHGs by banks. Besides, provide two links, one for cumulative bank linkage data and one for annual (last financial year) linkage data. This would be helpful for proper planning. In addition, the map could include data on expenses made on training, capacity building of SHGs, activities chosen by SHGs and activities for which subsidies are claimed.
- Measure and map the percentage of poor and poorest of the poor served by MFIs and the corresponding figures for the women borrowers.
- Map the district wise estimated credit demand and loans disbursed under both the models (SBLP and MFI) to understand the market from demand and supply perspective respectively.
- Show statistics on the insurance claims received by the insurance companies.

Respondents noted that various government programmes are supporting SHGs and advised that while conducting a mapping exercise, government institutions like State Institute of Rural Development and State Institute of Panchayats and Rural Development could be contacted to assimilate relevant information. As advised by some members, data from

the government-run self-employment programme Swarnjayanti Gram Swarozgar Yojana (SGSY) could also be tapped to collect State and district wise data of SHGs formed, graded and assisted through micro enterprise, the total credit mobilised and subsidy disbursed under the scheme. However, members cautioned on the need to validate the data to avoid overlapping in instances where one SHG has been reported by more than one MFI/NGO or government scheme.

Addressing the fact that some regions are underserved in terms of provision of financial services to the poor, members felt that the general malaise in the economy of the central, north-east and eastern states resulted in low demand for credit and the consequent unwillingness of quality MFIs/NGOs to initiate microfinance programme in these states. They pressed for long term public investments in areas such as watershed development, small scale irrigation, livestock upgradation, forest regeneration etc., to unlock the potential for enhancing livelihood opportunities for the poor. Members recommended expanding the reach of microfinance service providers (MFIs, Private Banks, and Venture Capitalists etc.) in the underserved regions by:

- Incubating MFIs in poorer districts under the guidance of the well established MFIs and training entrepreneurs in underserved areas. In this regard, a member suggested setting up an MFI school for interested entrepreneurs with suitable experience. In addition, members felt that donors and organisations like NABARD and SIDBI could establish a strong incentive system for establishing MFIs in underserved areas. Respondents proposed an MFI code of conduct to avoid unhealthy competition and poaching of clients.
- Setting up branches of well-established and quality NGOs in selected poor districts with funding support on an assured but diminishing basis for the first three to five years (as suggested by the 10th Five Year Plan Working Group on Poverty Alleviation).
- Development of community financing institutions (CFIs) with resource pooling at community level to better facilitate trickle down effect of financial services. A member suggested exploring public private partnership in community.
- Restructuring the present banking structure to bring down interest rates.
- Encouraging private sector banks to expand operations in the underserved areas.
- Enacting legislation to regulate and boost provision of financial services to the poor.

Finally, members offered suggestions on utilising the map as a tool to find the usage patterns of loans and the correlation between scope for ready provisions of marketable livelihoods in a particular locality, and the success of loan utilisation. The information contained in the map could also be used to draw contrasts among loan usage pattern by SHGs, microfinance clients and microfinance clients of banks. Members looked forward to further improvement in the map in order to make it more relevant, informative and comprehensive.

Related Resources

Recommended Organisations

National Bank for Agriculture and Rural Development, Mumbai

(from Satya Chakrapani, One World South Asia, New Delhi)

Micro Credit Innovations Department, Plot No. C-24, G Block, 2nd Floor, E Wing, Bandra-Kurla Complex, P.B. No. 8121, Bandra (East), Mumbai-400051, Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm>

Deals with matters in the field of credit for agriculture and other economic activities. It initiated a major credit delivery system linking SHGs to formal banks.

Ministry of Rural Development, New Delhi

(from Kamal Kant Tripathi, Ministry of Food Processing Industries, Government of India, New Delhi)

Krishi Bhawan, New Delhi-110 001, Tel: 91-11-23782373, 23782327; Fax: 91-11-23385876; <http://www.rural.nic.in>

It initiated SGSY, an anti-poverty alleviation programme that provides micro-credit and group insurance services to the poor through SHGs.

CARE-CASHE Project, New Delhi (from S. Victoria Nefa, Poverty Learning Foundation, Andhra Pradesh)

CARE India, 27, Hauz Khas Village, New Delhi-110016, <http://www.careindia-microfinance.org>

The largest microfinance initiative of CARE India with an aim at enhancing significantly the incomes and economic security of poor rural women and their households through microfinance services.

(from Sayantan Bera, Jawaharlal Nehru University, Delhi)

Professional Assistance for Development Action, New Delhi

3, Community Shopping Centre, Niti Bagh, P B No.

3827, New Delhi-110049, Tel: 91-11- 26518619, 51640611; Fax: 91-11- 26514682; pradhan@vsnl.com; <http://www.pradan.net>

Implementing an initiative in SHG promotion through mutual aid associations and financial intermediaries, to strengthen and promote livelihoods for the rural poor.

Rashtriya Gramin Vikas Nidhi, Guwahati

Bye Lane No. 8, Rajgarh Road, Guwahati, Assam-781003, Tel: 91-361-2452320, 2528652; Fax: 91-361-2528523; info@rgvnindia.org; <http://www.rgvnindia.org/credit.htm>

Under its Credit and Savings Programme, it works to enhance livelihoods of the poor by providing credit to women and men through SHGs and JLGs.

Rashtriya Mahila Kosh, New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 91-11-23354619; Fax: 91-11-23354621, ed_rmk@nic.in; <http://www.rmk.nic.in>

Acts as a wholesaler in microfinance sector and lends to smaller but potentially capable organisations to promote thrift and credit under its loan promotion scheme.

SHG-Bank Linkage Programme, Mumbai

Micro Credit Innovations Department, NABARD, Head Office, Plot No. C-24, "G" Block, 2nd Floor, "E" Wing, Bandra Kurla Complex, P.B. No. 8121, Bandra (East), Mumbai-400 051, Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm>

A NABARD's initiative to facilitate sustained access to financial services for the unreached poor in rural areas through various microfinance innovations.

(from Nilanjan Dasgupta, State Institute of Panchayat and Rural Development, West Bengal)

State Institute of Rural Development

<http://www.nird.org.in/sird1.html>

Formed under Rural Development Department of each state to impart training and conduct research and project works in the field of HRD, Poverty Alleviation etc.

State Institute of Panchayat and Rural Development, West Bengal

Panchayats & Rural Development Department, Government of West Bengal, Kalyani, Nadia, West Bengal; Tel: 91-33-25828161, 25825641, Fax: 91-33-25828257; wbsiprd@vsnl.net; <http://www.siprd.org>

An apex institute at the state level in the field of training and research in rural development targeting to enhance human resource of the state.

Baghnan Mahila Bikas Cooperative Credit Society

Block: Baghnan, District: Howrah, West Bengal.

Aims to empower underprivileged sections of society, especially women, by providing them access to financial services; also a CARE-CASHE partner.

Sreema Mahila Samity

Village & post: Duttapuli, District: Nadia, West Bengal, Tel: 91-3473-65385, 65207.

Employs SHG method to empower women by providing them access to financial services in West Bengal; also a CARE-CASHE partner.

Development of Women and Children in Rural Areas, New Delhi

Department of Rural Development, Krishi Bhawan, New Delhi-110001, <http://www.drd.nic.in/jry2/esdwra.htm>

Programme launched by GoI under IRDP with an aim to involve women in development activities by organising them into SHGs to focus on social issues.

Sa-Dhan, New Delhi

12 & 13, 2nd Floor, MPTCD Building, Special Institutional Area, Shaheed Jeet Singh Marg, New Delhi; Tel:91-11-55650787, 26966518; Fax: 91-11-26518276; info@sa-dhan.org; <http://www.sa-dhan.org>

Association of community development finance institutions with members from various MFIs, NGOs and wholesalers engaged in microfinance activities from across India.

National Minority Development and Finance Corporation, New Delhi (from Islam Husain, PAHAL, Uttarakhand)

1, Taimoor Nagar, Opp. D-996, New Friends Colony, New Delhi, Tel: 91-11-26326051-59, 26325652; Fax: 91-11-26325651; nmdfc@nmdfc.org; <http://www.nmdfc.org>

A Govt. agency, under its micro-credit scheme, provides interest loans through NGOs to the rural and urban poor and interest free loans for the formation of SHGs.

Centre for Micro Finance, Chennai (from Sarah Djari)

24, Kothari Road, Nungambakkam, Chennai-600034,

Tel: 91-44-28273801; Fax: 91-44-28279208; sdjari@ifmr.ac.in; <http://www.ifmr.ac.in/cmfm>

Organisation focusing on empirical research evaluating the impact of access to financial services, it has conducted a mapping exercise to reflect outreach of MFIs and SBLP.

Swiss Agency for Development and Cooperation, New Delhi (from Adrian Marti, India)

C/o Embassy of Switzerland, Chandra Gupta Marg, New Delhi-110021, Tel: 91-11-26877819/20; Fax: 91-11-26873631; adrian.marti@sdc.net; <http://www.sdcindia.in>

Bilateral donor focussing on poverty reduction in the semi-arid rural regions of India, it commissioned a mapping exercise of MFIs and SBLP.

Recommended Documentation

Guidelines for Swarnjayanti Gram Swarozgar Yojana (SGSY)

(from Kamal Kant Tripathi, Ministry of Food Processing Industries, Government of India, New Delhi)

<http://www.drd.nic.in/Guide/sgsy.htm>

Government scheme which aims to bring the assisted poor families above the poverty line by ensuring sustained level of income by organising the poor into SHGs.

(from Sayantan Bera, Jawaharlal Nehru University, Delhi)

State of the Microcredit Summit Campaign Report

By Sam Daley-Harris, Microcredit Summit Campaign Director, 2005

Highlights the list of verified institutions, verifiers, institution's action plans etc. relating to provision of micro-credit.

India: Rural Finance Sector Restructuring and Development

By Price Waterhouse Coopers Pvt. Ltd (Finance and Governance), India in association with BASIX, India, ADB, Volume 3; December 2003

Covers socio-economic overview of India's poor, policy review and analysis of microfinance sector, legal, regulatory and supervision issues related to the sector.

Quality Issues in the Microfinance Sector in Rajasthan: Draft Report

(from Sachin Bansal, Centre for microFinance, Rajasthan)

By APMAS, Hyderabad and CmF, Jaipur; 2006

Discusses the quality aspect, impact study, capacity building needs and constraints relating to microfinance sector in Rajasthan.

Conditions in which Microfinance has Emerged in Certain Regions and Consequent Policy Implications

(from Sachin Kumar, Research Associate)

By M. S. Sriram and Radha Kumar; May 2005

Looks at the macro data on the availability of infrastructure, economic growth, availability of formal financial services etc. to explain the growth of microfinance in certain regions.

Recommended Website

District Mapping of India's Top MFIs and NABARD-linked SHGs

(from Adrian Marti and Sarah Djari)

<http://ifmr.ac.in/cmfmSUdc>

Commissioned by SDC and implemented by CMF, this mapping exercise captures the presence of largest 15 MFIs and SBLP per district on the map of India.



Consolidated Reply

Query: Critical Areas and Strategies to Scale-Up Microfinance Investments— Advice and Experiences

Compiled by Sumeeta Banerji, Resource Person and Sachin Kumar, Research Associate

Issue Date: 22 January, 2007

From Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai

Posted 10 January, 2007

Dear Members,

My name is Ramesh S. Arunachalam and I have been working in the microfinance sector for several years. I am currently working with Micro Finance Consulting Group (MCG), Chennai, which is a specialised consulting company promoted to provide consultancy services to the microfinance sector.

Presently I am working on an “India Country Scan of microfinance” for a network of stakeholders and donors, who are keen on finalising their country strategy for making appropriate investments for scaling up microfinance in India. In this context, I would like to hear from the group on:

- Gaps in the microfinance sector and areas where critical sector wide investments (e.g. equity, technology, capacity building etc.) are necessary.
- Obstacles to scaling up microfinance services and possible strategies to overcome the same.

The scan is broad in scope and encompasses all possible approaches to reach low income clients and so, please share any relevant information or experiment as well as research and documents.

I would request an early reply from the members.

Responses were received, with thanks, from

1. C. S. Reddy, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad
2. Nitin Garg, MicroSave India, Lucknow
3. Nirmala Buch, Mahila Chetna Manch, Bhopal
4. Vanaja, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad
5. Prabhu Ghatge, Independent Consultant, New Delhi
6. S. G. Anil Kumar, ICICI Bank, Mumbai
7. L. P. Semwal, Shri Jagdamba Samiti, Rishikesh

Further contributions are welcome!

Summary of Responses

Responding to the query seeking inputs on the gaps in the microfinance sector and areas where investments are required, members discussed several broad challenges and obstacles facing the sector along with possible strategies to overcome them and scale-up microfinance.

Human Resources: Members’ experiences indicated that manpower is a critical challenge for both start-up and emerging MFIs at all institutional levels and unless appropriately addressed, could prevent sustained and continuous growth of the microfinance sector. Members highlighted issues of quality and

availability of human resources, stating that it was increasingly difficult to find trained and experienced staff, and suggested the following strategies:

- Tap local talent from the lesser known business schools for supervisory roles in MFIs.
- Provide training and capacity building of staff at all management levels of MFIs, including to the field staff for managing credit and record keeping for SHGs.
- Encourage mainstream professionals to serve in senior level management positions in MFIs.

Respondents felt it necessary to urge mainstream finance professionals to venture into microfinance and have new entrants the field learn the nuances of the sector, preferably from experienced microfinance practitioners. In addition, discussants stressed the importance of external funding support to provide the requisite training to staff at every level and mentioned an institution providing training and capacity building services.

Moral Code of Conduct: While reflecting on potential malpractices and unhealthy competition among microfinance practitioners, members opined that this could inhibit orderly and principled growth, and thus urged the development of an ethical code of conduct for MFIs. This code needs to be implemented through a self-regulatory mechanism, they advised.

Access to Financial Services: Discussants had serious concerns regarding the uneven and inadequate growth of microfinance services across the country including Uttarakhand. They pointed out that apart from a few States in South India, there are many States where the poor have little or no access to microfinance services. Along with the regional imbalance, members noted the demand-supply gap in urban microfinance services because most MFIs are working in rural markets, overlooking the needs of the urban markets. Further, MFIs generally offer urban clients the same microfinance products designed for rural markets, although these products do not address the requirements of the more vibrant and economically active urban market. Thus, members recommended designing new product models to cater specifically to the urban market.

Identifying Clients: Respondents pointed out the strategic gaps in identifying needy clients in both rural and urban areas and stressed the need for defining a strategy to identify potential microfinance

clients in urban areas. They advised the microfinance sector be more service-oriented and demand-driven to improve the poverty status of the clients, rather than being target oriented.

Requirements of Financial Resources: There is no shortage in the supply of funds for debt and equity capital. Members listed a number of social venture funds playing an active role in meeting the equity capital needs of start-up MFIs. However, these social venture funds have not been performing as expected due to the absence of exit routes in some legal forms of start-up MFIs. They also noted the need for equity capital for NGO-MFIs, which are at a stage of applying for NBFC license.

Policy and Regulation: Respondents, on one hand, recognised the government's efforts to regulate the sector through the new Microfinance Bill. On the other, they felt there is scope for further work on decentralised mechanisms for self-regulation, particularly in the area of SHGs and SHG federations.

Knowledge Sharing and Collaboration: Respondents shared an imminent launch of SHG learning centre and observed that there is still a lack of institutionalised mechanisms for disseminating learning from the sector and conflict resolution methods. They reiterated the need for knowledge sharing (i.e. documentation and dissemination of best practices, etc. through proper collaboration and coordination among the microfinance stakeholders) and recognised the critical role the Microfinance Community can play in this regard.

Information Technology: Participants also underlined the significance of information technology for efficient microfinance operations and in providing timely and quality services to poor individuals seeking to borrow money. They explored the current application of technology in the microfinance sector, noting the adoption of information technologies has been slow. Members mentioned several benefits of streamlining technology into microfinance activities, including:

- Helping MFIs track financial and operational data at the client and organisational level cost effectively.
- Aiding in the maintenance of client credit histories, to avoid multiple financing and over-debtedness.
- Making credit histories available in different locations, to help migrants labourers access credit.

At the same time, members emphasised that many small MFIs and SHG federations are unable to incur the cost of using information technology when they are starting. Thus, they suggested that donors and microfinance planners pay attention to this constraint when planning investments.

In addition to discussing the above challenges, members cited the Microfinance in India: A State of the Sector Report, which details the critical aspects requiring attention in the sector and elaborates on the supply and demand for training and capacity building services, and different sources of wholesale funds (developmental, commercial and venture capital institutions).

Finally, members explored the prospects and huge demand for livelihood finance and linkages between sustainable livelihoods and micro enterprise, which could be integrated into microfinance programmes. An additional research found a livelihood promotion institution tapping the huge demand for livelihood services. Respondents argued that addressing all these issues is essential for start-up and existing MFIs to scale-up operations. They also felt that in order to scale-up microfinance services for providing comprehensive livelihoods support with adequate flow of funds, coordination among technical institutes, development agencies, financial institutions and marketing agencies is required.

Discussants gave the above perspectives primarily to support a network of stakeholders and funders in making appropriate investment decisions on scaling up microfinance in their future country strategies.

Comparative Experiences

Uttarakhand

Shri Jagdamba Samiti Reaching to the Unreached Hilly Areas with Financial Services (from L. P. Semwal, Shri Jagdamba Samiti, Rishikesh)

Samiti, an NGO, is involved in promoting SHGs for various income generation activities in remote hilly villages of Rishikesh. These villages have very little access to banking services. In some villages, there are no single bank accounts for savings or credit. Looking at this, the Samiti decided to act as an MFI to facilitate the credit needs of these groups from their pool of cumulative savings and funds leveraged from the formal sources.

Multiple States

(from C. S. Reddy, APMAS, Hyderabad)

Institution Bridging Training and Managerial Support Gaps of Microfinance Sector

Andhra Pradesh Mahila Abhivruddhi Society (APMAS), based in Hyderabad, provides training and capacity building support to stakeholders involved in the promotion of members-owned and members-managed microfinance service providers like SHGs, SHG federations, Self-Help Promoting Institutions and government agencies across the country. Presently it is working with 11 districts of AP and five other states. As of March 2006, APMAS had imparted training to 31,777 participants.

New Year Gift as an SHG Learning Centre and One Stop Shop for Information

APMAS, a training and managerial support institution, based in Hyderabad is setting up an SHG Learning Centre, to be inaugurated on February 1, 2007. In this training facility centre, it is planned to conduct three simultaneous training batches. APMAS is also going to launch a website called the "SHG Gateway" that will provide information on the status of SHGs in the country.

ICICI Bank's Involvement in Microfinance Sector

(from S. G. Anil Kumar, ICICI, Mumbai)

ICICI, a private bank, has set up a MFI Development Team to provide access to debt, capital, training and capacity building, and technology needs of both mature and start-up MFIs across India. In collaboration with MicroSave India and Financial Information Network and Operations Pvt. Ltd. (FINO), they cater to the training and technology demand of the sector. The bank has also set up Grameen Capital to meet the equity and credit guarantee fund demand of MFIs.

Institution Addressing Demand for Livelihood Finance Services

(from Sachin Kumar, Research Associate)

The BASIX strategy or 'Livelihood Triad' integrates livelihood financial services, agricultural/business development services, and institutional development services in over eight states of India. As of March 2006, it has provided loans to over 2,50,000 active borrowers for agriculture, animal husbandry and non-farm based activities, besides offering most of

the borrowers life, health, weather and livestock insurance services.

Related Resources

Recommended Documentation

Microfinance in India: A State of the Sector Report

(from Prabhu Ghate, Independent Consultant, New Delhi)

By Prabhu Ghate; Microfinance India, New Delhi; 2006

Highlights options and strategies to scale up microfinance in India while explaining issues and challenges linked with the growing microfinance sector.

(from Sachin Kumar, Research Associate)

The Indian Microfinance Experience: Accomplishments and Challenges

By Rajesh Chakravarti; Integrating the Rural Poor into Markets, Academic Foundation, New Delhi; 2004
http://www.prism.gatech.edu/~rc166/Microfinance_in_India.pdf

Paper discusses the achievement of SHG-based microfinance besides pointing out critical areas of improvement in loan quality, improvement in skill levels of borrowers etc.

Microfinance in India: Current Trends and Challenges

Centre for Micro Finance, Institute for Financial Management and Research, Chennai; October 2006
[http://ifmr.ac.in/cmfw/wp-content/uploads/2006/11/MF-in-India-\(WA4.10.06\).pdf](http://ifmr.ac.in/cmfw/wp-content/uploads/2006/11/MF-in-India-(WA4.10.06).pdf)

Paper discusses issues and challenges in microfinance sector like skilled human resources, standard credit information, and deals with regulatory issues and political risks.

Financial Inclusion by Extension of Banking Services

Reserve Bank of India; January 25, 2006
http://rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=2718

Circular introducing the Banking Correspondent and Facilitators model to ensure greater financial inclusion and increase the outreach of banking sector.

New Regulations for Microfinance Soon

The Times of India; December 8, 2006
Article on Microfinance Sector (Development and

Regulation) Bill aiming at regulating the sector and enabling NGO-MFIs and SHGs to provide microfinance services.

From Microcredit to Livelihood Finance

By Vijay Mahajan; BASIX, Hyderabad; August 2005
http://www.microfinancegateway.org/files/34431_file_06.pdf

Speech mentions the limitations of micro-credit and suggests for livelihood finance for larger impact on the poor's livelihoods and thus reaching economic growth.

Scaling Up Microfinance in India

By Vinod Khosla and Vikram Gandhi; The Economic Times; June 15, 2006
<http://economictimes.indiatimes.com/articleshow/1648287.cms>

Article touches upon microfinance issues like inflexible loan products, regulatory impediments to providing savings and insurance services, lack of data on client level impact.

Recommended Organisations

(from L. P. Semwal, Shri Jagdamba Samiti, Rishikesh)

Small Industries Development Bank of India (SIDBI), Lucknow

SIDBI Tower, 15, Ashok Marg, Lucknow-226001, Tel: 91-522-2288547/8/9/50; sfmclho@sidbi.com; <http://www.sidbi.in/Micro/index.htm>

SIDBI Foundation for Micro Credit (SFMC) catering to wholesale credit and quasi-equity demand of microfinance sector, besides providing grants for meeting training needs of MFIs.

Rashtriya Mahila Kosh (RMK), New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 91-11-23354619/20/28; Fax: 011-23354621; ed_rmk@nic.in; <http://www.rmk.nic.in/chap3a.htm>

Government institution addressing funding and training issues of microfinance sector while acting as a wholesaler to retail intermediate microfinance organisations.

Shri Jagdamba Samiti, Tehri Garhwal

1, Vinod Market, Dehradun Road, Rishikesh, Uttarakhand-249201, Tel: 91-135-2436963; Fax: 91-135-2433166; lpsemwal@yahoo.com

An NGO working in hilly regions of Uttarakhand state providing/facilitating microfinance services to the low income SHG members.

(from S. G. Anil Kumar, ICICI Bank, Mumbai)

The Bellwether Microfinance Fund, Hyderabad

III Floor, 8-2-596, Road No. 10, Banjara Hills, Hyderabad-500034, Tel: 91-40-66460505/5883 Fax: 91-40-66465884; info@bellwetherfund.com; http://www.bellwetherfund.com/product.html

Fund makes equity and debt investments in promising start-up and growing MFIs while providing consulting services to the management of MFIs.

Lok Capital, New Delhi

11, Golf Links, New Delhi-110003, Tel: 9111-24691900; vmehta@lokcapital.com; http://www.lokcapital.com

Socially responsible venture fund providing equity capital and capacity building support to MFIs, thus facilitating the delivery of microfinance services to the poor.

Aavishkaar, Mumbai

Unit No. 221, Atlanta Estate, Off Western Express Highway, Goregaon (E), Mumbai-400063, Tel: 91-22-32535292; Fax: 91-22-28778255; vineet_rai@aavishkaar.org; http://www.aavishkaar.org

Venture fund to promote entrepreneurship and microfinance in rural and semi-urban areas with the provision of financial investment and other resources.

Industrial Credit and Investment Centre of India (ICICI) Bank, Mumbai

(from S. G. Anil Kumar and L. P. Semwal, Shri Jagdamba Samiti, Rishikesh)

ICICI Bank Towers, Bandra-Kurla Complex, Mumbai-400051, Tel: 91-22-26536425; Fax: 91-22-26531233; http://www.icicibank.com

Private bank giving financial support to MFIs under normal loan terms and partnership model besides helping MFIs to access training and technology needs.

Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad

(from C. S. Reddy)

Plot No. 20, Rao and Raju Colony, Road No. 2, Banjara Hills, Hyderabad-500034; Tel: 91-40-23547927/52 Extn. 50; Fax: 91-40-23547926; msrk@apmas.org or msrk2508@apmas.org; http://www.apmas.org

State level technical support institution providing capacity building, quality rating, research and advocacy services to SHGs and others in microfinance sector.

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

(from Sachin Kumar, Research Associate)

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 having microfinance development and equity fund for providing loan, training and equity support to MFIs.

BASIX, Hyderabad

(from Sachin Kumar, Research Associate)

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Tel: 91-40-30512500/1; Fax: 91-40-30512502; info@basixindia.com; http://www.basixindia.com

Group of institutions providing livelihoods based financial and technical services (credit, savings, insurance, business development services etc.) to the economically active poor.

Recommended Portal and Information Base

SHG Gateway (from C. S. Reddy, APMAS, Hyderabad)

www.shgateway.in

Website to be launched by APMAS, designed to provide information on SHGs including outreach, quality and poverty impact.



Consolidated Reply

Query: State of the Sector Report for Microfinance—Experiences and Examples

Compiled by Navin Anand, Resource Person and Nupur Bahl, Research Associate

Issue Date: 2 July, 2008

From N. Srinivasan, Lead Author of the 'State of the Sector Report 2008', Pune

Posted 9 May, 2008

You might have observed that in the last two years, a comprehensive document on the status, issues, innovations, practices, and models of microfinance sector was released, entitled "State of the Sector Report." This has been a unique and widely referred to document not only in India but also in other parts of the world. As per the C-GAP Microfinance Gateway, it was among the five most downloaded sector documents worldwide. Thanks to ACCESS Development Services for being a forerunner in bringing it out, in the annual Microfinance India Conference-2006.

The key stakeholders for the State of the Sector Report 2008—ACCESS, the Ford Foundation, the SDC and UNDP have entrusted me with the writing of the report for this year.

With this background, I would like to share my vision for the report and also the specific areas in which the members can enrich the report. Since the Indian microfinance scenario is unique in the world, in terms of its diversity, I envision a report which provides not only national and state wise analysis on growth and impact, but also shares experiences and innovations in terms of rural and urban, sector and sub-sectors of livelihood, implementation models, legal forms, target groups, national and state policies/laws, and microfinance services and products.

Broadly, the report is intended to highlight and present perspectives on current issues and document new interests, investments and innovations. It also needs to identify knowledge gaps that call for further research, statistical efforts, etc. The report will

disaggregate information in different crosscutting areas so that it facilitates the macro and micro level planning on microfinance.

To make the report a truly "people owned document," I would like the members of the Microfinance Community to contribute by sharing documents (case studies, reports, etc.) and information on microfinance and specifically on:

Microfinance for Specific Sub-Sector

- Special experiences related to microfinance services and livelihood chains of specific sub-sectors, which can be termed as sustainable and replicable models.

Innovative Products and Services

- Innovative products and services created and tested in the four major microfinance activities – savings, credit, insurance and transfer of money.

Rural and Urban Housing

- Experiences and views related to microfinance for rural and urban housing.

The inputs received from the members will enrich the quality of report and it will ultimately lead to the more focused planning and strategy for up-scaling the microfinance sector in the country.

All information shared by community members, that are used in the report would be duly acknowledged. Ten best contributors would receive a copy of the book.

Responses were received, with thanks, from

1. Rahul Rawat, Self Help India, Dehradun
2. G. K. Agarwal, Rural and Microfinance Consultant, Mumbai
3. Shashi Shrivastava, Grameen Capital India, Mumbai
4. Arabinda Mitra, Ghoragacha Swanirvar Samiti, Kalyani, West Bengal
5. Harish Chotani, Microfinance Consultant, Gurgaon
6. Vijay Pratap Singh Aditya, Ekgaon Technologies, New Delhi
7. Aparna Vishwanatham, EDA CapitalConnect Ltd., Gurgaon
8. Shannjit Singh, Grameen Capital India, Mumbai
9. Baladeb Sen, Microfinance Consultant, Chennai
10. Navin Anand, United Nations Development Programme (UNDP), New Delhi
11. Neela Mukherjee, Development Tracks RTC, New Delhi
12. Chhaya Kunwar, Himalayan Action Research Centre (HARC), Dehradun
13. Iddo Dror, Micro Insurance Academy, New Delhi
14. Ajaita Shah, SKS Foundation, Hyderabad
15. Gurusamy Gandhi, Micro Insurance Research Centre (MIRC), London, United Kingdom
16. Toms K. Thomas, Evangelical Social Action Forum (ESAF), Mannuthy, Trichur
17. Ravi Chandra, Bihar Development Trust, Patna
18. Kiran Kulkarni, Institute for Rural Credit & Entrepreneurship Development, Sangli*

Further contributions are welcome!

Summary of Responses

Responding to a request for inputs on the State of the Sector Report 2008, respondents shared a range of documents and suggestions on various aspects of microfinance such as savings, credit, micro insurance, microfinance-regulations, legal entity for federations of SHGs, innovations, capacity building, and the role of IT in microfinance.

In context of the changing Indian scenario, respondents felt that the term 'microfinance' needs to be redefined; considering various aspects such as needs of microfinance, different players of microfinance,

extent of assistance and type of financial services. Respondents shared information on various companies providing innovative ways of debt and equity capital structuring, focusing on reducing cost of capital for MFIs and suggested for accessing mainstream capital markets and other set of investors such as insurance companies, pension funds etc.

Focusing on the issue of accessibility, timeliness and affordability of microfinance services for financial inclusion, respondents stressed on linking second-line potential grassroots lenders and service providers such as credit advisors, department stores, insurance agents, input distributors etc. with technically sound formal agencies, having professional expertise in micro-financing. They also cited an example of a joint venture microfinance initiative in Gujarat and Maharashtra, involving three types of organisations – a private company, an established microfinance organisation and a non-profit institution. Respondents were given another example of a leading foundation of Andhra Pradesh working on a project called the 'Ultra Poor Programme,' which targets the poorest of the poor and provides holistic services covering financial services and also social development services.

Discussing on the issue of outreach of micro insurance, members felt that insurers need to create the right market-mix, using appropriate delivery channels. NGOs and their SHG federations are well positioned to function as distribution network partners for insurance. They also highlighted a unique training model, developed by a national level insurance academy, which emphasises community-based, self-help approach to provide micro insurance. Member raised a number of questions related to regulating micro insurance sector and problems prevailing in the sector. Members suggested for adding 'Remittance' and 'Remittance Insurance' in the list of aspects, for disaggregating the report.

On the issue of savings, discussants suggested examining two important papers written on savings. Members quoted example of an NGO in Kerala, which provided a number of avenues to enable its clients as well as the larger community to invest in development financing. Respondents have also shared an example of an emerging MFI in Bihar, adopting the Grameen Bank model of Bangladesh. This institution is promoted by graduates of Institute of Rural Management Anand

*Offline Contribution

(IRMA), Gujarat. This gives an underlying message that emergence of such institutions can enhance the financial inclusion in the country.

Looking at private equity players and venture capital companies, members opined that they could help MFIs to open new branches, scale up existing ones and hire qualified professionals, which would contribute to the overall growth of MFIs. Discussing the systems which support growth of microfinance sector, respondents informed about an initiative by a national level MFI-supported organisation providing a common platform to reduce asymmetry in information flow among social entrepreneurs, investors and lenders. It is envisaged that this initiative would lead to enhancing the accessibility of capital for different level of MFIs, improve capital allocation and price discovery.

Respondents also shared experiences of Uttarakhand, where a leading NGO has established a women's SHG federation in the form of a multi-purpose autonomous cooperative society. The federation can legally undertake all the financial as well as non-financial intermediation services required by the members of SHGs. Reference of Grameen Foundation that combines microfinance, technology, and innovation to empower the world's poorest people to escape poverty also came under the discussion. Members also suggested the State of the Sector Report to give due importance to MFIs exhibiting problems, so that the lessons learned can be utilised for the development of microfinance sector. Following recommendations were made by the discussants for the promotion of microfinance sector in India:

- Projecting Indian brand of microfinance at the international level without sacrificing local need based innovations and experiments.
- Applying all inclusive approach with provision of different microfinance intermediation services and also all business development services for income generating employment/activities.
- Early introduction of regulations for MFIs, through Microfinance Bill.
- Enhancing opportunities for members to have access and mediate their savings to the pool of investment that fetches them the highest rate of interest.
- Stratification of MFIs using different assessment tools - "Organisational Assessment" tool for emerging MFIs and "Rating" for expanding and mature MFIs.
- Introduction of Social Accountability and Social Performance Management (SPM) Audit for MFIs

and other agencies engaged in microfinance.

- Sharing of knowledge at regional and national level on best practices related to technology, management processes and governance, useful for drawing a pro-poor future strategy. Bringing out an all India Annual Publication on important statistics on microfinance.
- Leveraging IT with smart solutions to add value both for financial institutions as well clients, resulting into reducing transaction cost.
- Introduction of long term micro loans and facilitating a longer engagement with the clients and also introducing 'Micro Loans through Web' model of micro-credit which aims at combining the existing institutionalised micro-credit with individual philanthropy.
- Rationalisation of the interest rates charged by MFIs and greater transparency.

In order to make microfinance viable on aspects of scale, geo expansion and profits, members stressed that there is a need to link livelihood initiatives and application of "Cluster Approach" where the tools such as 'Value Chain' and 'Supply Chain' are appropriately used, for profitable value addition. Respondents proposed for introduction of lead MFI system for planning and providing non-financial support and promotion of triangular partnerships - Public, MFI and Community Partnerships. Due to migration from rural to urban areas, the needs of urban poor for microfinance have increased. Members recommended for improving focus on urban poor for micro-financial and other interventions to improve their access to formal credit. Members also urged for making microfinance a gender-neutral movement.

Finally, on framework of the report, respondents suggested for including a separate section on the development of policy through decentralisation of economic power in context of the growth of MFIs. Additionally, they advised studying the policy perspectives of mainstream banks and development finance agencies for the next five to ten years to understand clearly their approach and lending policy. Discussants also felt that including key performance indicators for MFIs in the report, especially on financial, social, management, governance systems and IT systems, would be useful. Finally, respondents suggested disaggregating the report based on various issues/aspects of microfinance to ensure focused actions on various aspects by different players of microfinance.

Comparative Experiences

Uttarakhand

(from Chhaya Kunwar, Himalayan Action Research Centre (HARC), Dehradun)

Customised Micro-Finance Services in the Form of Special Interest Rates

HARC is promoting SHG federations in the form of multi-purpose women cooperative. HARC functions as a catalyst for microfinance services mobilising SBI to link its SHGs and lend based on the recommendations of women cooperative. Due to the facilitation provided by HARC, SBI has provided cash credit limit of Rs. 5 lakh to the cooperative at a special rate of interest of only 8 percent.

Microfinance for Housing

SBI introduced the Sahyog Awas Yojana (easy housing) scheme for women SHGs promoted by HARC. Twenty-four SHGs have accessed housing loans. The housing loans of Rs. 14 lakh provided by the state bank have helped 46 women from different SHGs to construct or renovate their houses. Another result is that proper sanitation has also been introduced, as the beneficiaries have constructed proper toilets in their houses.

Bihar

Savings in a Box Provides Loans to Silk Weavers, Bhagalpur and Patna Districts

(from Ravi Chandra, Bihar Development Trust, Patna)

The Bihar Development Trust's approach is similar to the Grameen Bank model in Bangladesh. They form groups of five women who save Rs. 10 per week in a savings box. The group members collectively own the savings box. Loans are provided after four weeks. The organisation has so far disbursed Rs. 1,200,000 in Bhagalpur and Patna districts and are now providing market linkages to silk weavers of Bhagalpur.

Haryana

Social Enterprise Capital, Gurgaon

(from Aparna Vishwanatham, EDA CapitalConnect Ltd., Gurgaon)

CapitalConnect is a market place for social enterprise capital. It is an exchange that has enabled structured interactions among its registered participants leading to sharing of interest for buying/selling equity, lending/borrowing or partnering. The innovation has helped to reduce the asymmetry in information flow among enterprises, investors and lenders, thus leading to better capital allocation and price discovery.

Maharashtra and Gujarat

Private Company, MFI and NGO Partner to Improve Access to Finance at Grassroots Level

(from Rahul Rawat, Self Help India, Dehradun)

Reliance Capital launched a joint venture (JV) with MAS Financial Services Ltd and Vardan Trust to provide access to finance at the grassroots level. The initiative envisages lending to MFIs who would then lend to agriculturists, artisans, small scale industries, unskilled labourers and women. The model is designed to optimally utilise expertise in distribution of credit to small enterprises for income generation activities, consumption and emergency needs.

Related Resources

Recommended Documentation

Report of The Committee on Financial Inclusion

(from Rahul Rawat, Self Help India, Dehradun)

Report; by Mr. C. Rangarajan; NABARD; Mumbai; January 2008

Available at http://www.nabard.org/pdf/report_financial/Full%20Report.pdf

Makes recommendations on ensuring financial inclusion to empower vulnerable groups by providing credit, savings and insurance services and remittance facilities.

Grameen Capital India—Case Study of Bharat Integrated Social Welfare Agency (BISWA)

(from Shashi Shrivastava, Grameen Capital India, Mumbai)

Case Study; Grameen Capital India Limited; Mumbai
Available at <http://www.solutionexchange-un.net.in/mf/cr/res09050802.pdf>

Describes Grameen Capital India's intervention in the sale of agri-assets to one of the largest MFIs in eastern India through a leading private sector bank.

(from Neela Mukherjee, Development Tracks RTC, New Delhi)

Designing Savings Services: The International Experience

Paper; Graham A. N. Wright; MicroSave

Available at:

www.microsave.org/get_filef.asp?download_id=1799&myurl=%2Fabout_ms.asp%3FID%3D10

Reviews how poor people save cash and how MFIs might assist them, while retaining its focus on profitable operations and sustainability.

Alternate Model/s to Micro Savings for the 'Bottom-of-the Pyramid' in Rural Areas: Lessons from India, Bangladesh and Nepal and Some Policy Doables

Paper; Neela Mukherjee; 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr/res09050803.pdf>

Paper focuses on the bottom-most segments of the rural poor and critically looks into the dominant model of micro-savings related to microfinance.

MIA Training Model

(from Iddo Dror, Micro Insurance Academy, New Delhi)

Training Module; Micro Insurance Academy; New Delhi

Available at <http://www.microinsuranceacademy.org/training>

Model designed by MIA, emphasises community-based, self-help approach to delivering micro insurance.

(from Ajaita Shah, SKS Foundation, Hyderabad)

SKS Foundation's Ultra Poor Programme Overview-Working Beyond Microfinance

Note; SKS Foundation India

Available at <http://www.solutionexchange-un.net.in/mf/cr/res09050804.pdf>

Gives an overview of the "SKS Ultra Poor Programme," modeled after the highly successful BRAC programme in Bangladesh, working on the challenge of extreme poverty on three levels.

Programme

Document; SKS Foundation India

Available at <http://www.solutionexchange-un.net.in/mf/cr/res09050805.pdf>

Gives updates on the programmes of SKS Foundation and explains future ventures of the organisation in working with the poorest of the poor.

Poverty Eradication through Community Grain Banks

(from Kiran Kulkarni, Institute for Rural Credit & Entrepreneurship Development, Sangli)

Article; by Kiran Kulkarni; Institute for Rural Credit & Entrepreneurship Development (IRCED); Maharashtra

Available at <http://www.solutionexchange-un.net.in/mf/cr/res09050806.DOC>

Gives an account of the evolution and mechanics of a Grain Bank Movement in the villages of drought

prone areas of Atpadi taluk in district. Sangli.

Recommended Contacts and Experts

Mosleh Uddhin Ahmad, Micro Insurance Research Centre (MIRC), London, United Kingdom

(from Gurusamy Gandhi, Micro Insurance Research Centre (MIRC), London, UK)

mua@mircuk.org

CEO of MIRC, is a remittance Expert & has designed an innovative product for MFI beneficiaries.

Recommended Organisations and Programmes

(from Rahul Rawat, Self Help India, Dehradun)

MAS Financial Services Limited, Ahmedabad

6, Ground Floor, Narayan Chambers, Ashram Road, Gujarat, Ahmedabad-380009, Tel: 91-79-30016500; Fax: 91-79-30016611/645/656; <http://www.mas.co.in/home.aspx>

Retail financing organisation, registered with Reserve Bank of India as NBFC, partnered with Reliance to improve access to finance in Gujarat.

Vardan Trust, Gujarat

5, Janakpuri Society, Govind Nagar, Dahod, Gujarat-389151, Tel: 91-2673-244933; Fax: 91-2673-244933; vardanmfi@rediffmail.com

Offers microfinance to farmers, small shopkeepers, artisans, small enterprise workers, and partnered with Reliance to improve access to finance in Gujarat.

Reliance Capital, India

<http://www.reliancecapital.co.in/rcamportal/index.jsp>

Private sector financial services company has partnered with MFIs in Maharashtra and Gujarat to improve financial access at the grassroots level.

(from G. K. Agarwal, Rural and Microfinance Consultant, Mumbai)

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, Maharashtra; Tel: 91-22-26539244; Fax: 91-22-2652-8141; nabmcid@vsnl.com; <http://www.nabard.org/>

Development bank which facilitates credit flow for promotion and development of agriculture, small scale industries, cottage industries, handicrafts and other rural crafts.

Small Industries Development Bank of India (SIDBI), Lucknow

SIDBI Tower, 15, Ashok Marg, Lucknow-226001, Uttar Pradesh; Tel: 91-522-2288547; <http://www.sidbi.in/>
Works to empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to economic growth, employment generation and regional development.

Spandana, Hyderabad

2-1-88/B/8/1, Krushi Nagar colony, Bandlaguda, (Nagole), Hyderabad, Andhra Pradesh-500068; Tel: 91-40-32998863; info@spandanaindia.org; <http://www.spandanaindia.org/projects.html>

Creates opportunities for marginalised women to identify suitable vocations, impart trainings and establish micro enterprise units through thrift and credit programme.

BASIX, Hyderabad

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 91-040-3051250091; Fax: 91-040-30512502; <http://www.basixindia.com/>

Livelihood promotion institution providing business development services & uses mobile banking to provide basic, no frills banking services to poor migrant workers & low income consumers.

SKS Microfinance, Swayam Krishi Sangam (SKS) Foundation, Hyderabad

8-2-6084/1/1, Karama Enclave, Near Gaffar Khan Colony, Rd. # 10 Banjara Hills, Hyderabad-500034, Andhra Pradesh; Tel: 91-40-23305119/25; info@sksindia.com; <http://www.sksindia.com/>

Empowers the poor to become economically self-reliant by providing financial services in a sustainable manner; one of the fastest growing microfinance organisations in the world.

SKS Foundation, Hyderabad

(from Ajaita Shah)

Swayam Krishi Sangam, 301 Babukhan Estate (3rd Floor), Basheerbagh, Hyderabad, Andhra Pradesh-500001; sksultrapoor@sksindia.com; <http://www.sksfoundation.org/>

The SKS Ultra Poor Programme; under the foundation works to address the challenges of extreme poverty through three linked interventions: economic, social and health.

SHARE Microfin Limited, Hyderabad

1-224/58, Rajeev Nagar, Nacharam, Hyderabad-

500076, Andhra Pradesh; Tel: 91-40-27158380/7; Fax: 91-40-27158225; sml@sharemicrofin.co; <http://www.sharemicrofin.com/>

Regulated MFI providing financial and support services to rural Indian women through income generating loans and business development services.

(from Shashi Shrivastava, Grameen Capital India, Mumbai)

Grameen Capital India

<http://grameencapital.in/>; royston.braganza@grameencapital.in; Contact Mr. Royston Braganza; CEO, Grameen Capital India Ltd.

Collaboration of Grameen Foundation, IFMR Trust and Citi, it works with innovative ways of debt and equity capital structuring, focussing at reducing cost of capital for MFIs.

Grameen Bank, Bangladesh

Grameen Bank Bhavan, Mirpur-1, Dhaka-1216, Bangladesh; Tel: 88-02-9005257-69; grameen.bank@grameen.net; <http://www.grameen-info.org/bank>

Largest MFI in Bangladesh, provides interest based microfinance services to the poor section of the Muslim population.

Grameen Foundation, Bangladesh

(from Shannjit Singh, Grameen Capital India, Mumbai)

Grameen Bank Bhavan, Mirpur-1, Dhaka 1216, Bangladesh; Tel: 88-02-9005257-69; www.grameenfoundation.org

Global non-profit organisation that combines microfinance, technology, and innovation to empower the world's poorest people to escape poverty.

Institute of Financial Management and Research (IFMR), Chennai

1, Cenotaph Road, Teynampet, Chennai-600018, Tamil Nadu; Tel: 91-44-4305-1500; Fax: 91-44-4305-1558; <http://ifmrtrust.co.in/>

Private trust working towards ensuring universal access to financial services, focussing on under-served regions of rural India.

(from Aparna Vishwanatham, EDA CapitalConnect Ltd., Gurgaon)

Sa-Dhan, New Delhi

12 & 13, 2nd Floor, MPTCD Building, Special Institutional Area, Shaheed Jeet Singh Marg, New Delhi; Tel: 91-11-55650787, 26966518; Fax: 91-11-26518276; info@sa-dhan.org; <http://www.sa-dhan.org>

Association of community development finance institutions with members from various MFIs,

NGOs and Wholesalers engaged in microfinance activities from across India.

Capital Connect, Gurgaon

602, Pacific Square 32 Milestone, NH8, Gurgaon-122001, Haryana; Tel: 91-124-426-8707; contact@edacapitalconnect.com; <http://www.edacapitalconnect.com/>

The automated platform improves the efficiency of capital formation in the private placement market; provides liquidity to investors, lenders, businesses and entrepreneurs.

Himalayan Action Research Centre, Dehradun

(from Chhaya Kunwar)

744, Indira Nagar, Phase II, Post Office New Forest, Dehradun-248006, Uttarakhand; Tel: 91-135-2760121; info@harcindia.org; www.harcindia.org

Autonomous voluntary development organisation works on sustainable development of people in the mountains.

Micro Insurance Academy (MIA), New Delhi

(from Iddo Dror)

D-127 Panchsheel Enclave, New Delhi-110017, Tel: 91-11-4174-9101; Fax: 91-11-4174-9102; <http://www.mia.org.in/>

Charitable trust dedicated to training, research, and advisory services for micro insurance units serving the poor, works towards protecting livelihoods using financial tools.

Evangelical Social Action Forum (ESAF) Swasraya Producers Company Limited (ESPCL), Trichur

(from Toms K. Thomas)

P. B. No. 12, Hephzibah Complex, Mannuthy, Trichur, Kerala-680651, Tel: 91-487-2371472/3813; Fax: 91-487-2371472; esaf@sancharnet.in; <http://www.esafindia.org/index.htm>

Micro Enterprise Development initiative provides a broad package of financial services (savings, credit and insurance) as well as other business development services to social enterprises.

Bihar Development Trust, Patna

(from Ravi Chandra)

B-403, Saket Vihar Apartment, Khazpura, Bailey Road, Patna, Bihar-800014, Tel: 9470017752; Contact Ravi Chandra; Managing Trustee; rchandra1231@gmail.com

Implemented Grameen Bank model in Bihar, works to bring wealth of common people and beyond lending credit, it supports livelihood work.

(from Navin Anand, Resource Person)

Ministry of Rural Development, Government of India, New Delhi

Krishi Bhawan, New Delhi-110001, Tel: 91-11-23782373, 23782327; Fax: 91-11-23385876; <http://www.rural.nic.in>

Initiated Swarnajayanti Gram Swarozgar Yojana (SGSY), an anti-poverty alleviation programme that provides micro-credit and group insurance services to the poor through SHGs.

CARE India-CASHE Project, New Delhi

27, Hauz Khas Village, New Delhi-110016, <http://www.careindia-microfinance.org>

Largest microfinance initiative of CARE India with an aim of enhancing significantly the incomes and economic security of poor rural women and their households through microfinance services.

Rashtriya Gramin Vikas Nidhi, Guwahati

Bye Lane No. 8, Rajgarh Road, Guwahati, Assam-781003, Tel: 91-361-2452320, 2528652; Fax: 91-361-2528523; info@rgvnindia.org; <http://www.rgvnindia.org/credit.htm>

Under its Credit and Savings Programme, it works to enhance livelihoods of the poor by providing credit to women and men through SHGs and JLGs.

Rashtriya Mahila Kosh, New Delhi

1, Abul Fazal Road, Bengali Market, New Delhi-110001, Tel: 91-11-23354619; Fax: 91-11-23354621, ed_rmk@nic.in; <http://www.rmk.nic.in>

Acts as a wholesaler in the microfinance sector and lends to smaller but potentially capable organisations to promote thrift and credit under its loan promotion scheme.

SHG-Bank Linkage Programme, Mumbai

microCredit Innovations Department, NABARD, Head Office, Plot No. C-24, "G" Block, 2nd Floor, "E" Wing, Bandra-Kurla Complex, P.B. No. 8121, Bandra (East), Mumbai-400051, Maharashtra; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; <http://www.nabard.org/roles/microfinance/index.htm>

NABARD initiative facilitating sustained access to financial services for rural unreached poor through various microfinance innovations.

Mysore Rural Area Development Agency (MYRADA), Bangalore

No.2, Service Road, Domlur Layout, Bangalore-560071, Karnataka; Tel: 91-80-25352028/3166; Fax: 91-80-25350982; myrada@vsnl.com

NGO supporting microfinance programme through Sangahamitra Rural Financial Services and provides non-farm skills and enterprise development through technical training institutes.

(from Nupur Bahl, Research Associate)

National Minority Development and Finance Corporation, New Delhi

1, Taimoor Nagar, Opposite D-996, New Friends Colony, New Delhi; Tel: 91-11-26326051-59/5652; Fax: 91-11-26325651; nmdfc@nmdfc.org; <http://www.nmdfc.org>

Government agency under its micro-credit scheme, provides interest loans through NGOs to the rural and urban poor and interest free loans for the formation of SHGs to NGOs.

Swiss Agency for Development and Cooperation, New Delhi

C/o Embassy of Switzerland, Chandra Gupta Marg, New Delhi 110021, Tel: 91-11-26877819/20; Fax: 91-11-26873631; adrian.marti@sdc.net; <http://www.sdcindia.in>

Bilateral donor focusing on poverty reduction in the semi-arid rural regions of India, it commissioned a mapping exercise of MFIs and SBLP.

Centre for Micro Finance, Chennai

24, Kothari Road, Nungambakkam, Chennai, Tamil Nadu; Tel: 91-44-28273801; Fax: 91-44-28279208; <http://www.ifmr.ac.in/cmfi>

Organisation focusing on empirical research evaluating the impact of access to microfinance services besides offering consulting services and holding training for MFIs.

Development of Women and Children in Rural Areas, Department of Rural Development, New Delhi

Krishi Bhawan, New Delhi-110001, <http://www.drd.nic.in/jry2/esdwra.htm>

Programme launched by GoI under Integrated Rural Development Programme (IRDP) with aim to involve women in development activities by organising them into SHGs to focus on social issues.

ACCESS Development Services, New Delhi

27, Hauz Khas Village, New-Delhi 110016, Tel: 91-11-26566060/4101; Fax: 91-11-26564081/29671; vsharma@careindia.org; <http://www.careindia-microfinance.org/DefaultDetail.asp?qstxt=52>

Addresses the needs of the micro-entrepreneurs for business development services by providing livelihoods finance planning, market strategy and other technical services.

Recommended Portals and Information Bases

India Development Gateway (IDG)

(from Navin Anand, UNDP, New Delhi)

<http://indiadevelopmentgateway.com/app/idg/login.php>

Started by Intelicap, funded by the Development Gateway, connects social entrepreneurs and investors to overcome barriers limiting the flow of capital into social enterprise.

Microinsurance Publications, Micro Insurance Academy

(from Iddo Dror, Micro Insurance Academy, New Delhi)

<http://www.microinsuranceacademy.org/publications>
Comprehensive collection of free publications on micro insurance which sketch the state of micro insurance in India in the last 10 years.

II.
***Policy, Organisational Structures and Linkage
Platforms for Microfinance***



Consolidated Reply

Query: Mobile Payment Guidelines of RBI–Experiences and Advice

Compiled by Navin Anand, Resource Person, Nupur Bahl and Monika Khanna, Research Associates

Issue Date: 24 July, 2008

From Harish Chotani, Consultant, Gurgaon

Posted 27 June, 2008

In the recent past, Government of India constituted a Committee on financial inclusion under the chairmanship of Dr. Rangarajan, which specifically focused financial inclusion in four specific terms – Access to Financial Services (savings, credit, insurance and transfer of money), Timely Credit – Adequate Credit and Affordable Credit. Mobile phone banking and other innovative methods of transferring the money address various aspects of financial inclusion, including access, affordability and timely disposal of microfinance services.

In a recent interesting discussion on “Microfinance Services through Mobile Phone Banking in Remote Areas” in the Microfinance Community, members quoted good national as well as international examples like Philippines’ experiment by Smart Communications, ‘WIZZIT’ experiment of South Africa, ‘Mobitel Tanzania’ initiative in Tanzania, XACBank in Mongolia, ‘M-PESA’ in Kenya and other such experiments. Members also expressed concerns about regulatory scenario and stressed on critical areas to be reviewed by RBI and the Ministry of Finance, Government of India. The Consolidated Reply can be downloaded at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-ictd-23040801.pdf>

RBI has taken a proactive role on the issue of mobile payments by coming out with the guidelines for creating an environment of transparency. From the RBI Press Release: 2007-2008/1589, dated 12 June, 2008, sent out by Ms. Alpana Killawala, I came to know that RBI is interested in getting the views of the people on Operational Guidelines for Mobile Payments.

To read the guidelines, please visit. http://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=1365

Taking the reference of discussion on mobile banking in Microfinance Community of Practice and RBI’s initiative of coming out with guidelines for mobile payments, I would like to propose to the members for supplementing the efforts of RBI by sharing their experiences and advice on the following key areas of RBI’s Mobile Payment Guidelines:

- The provisions and arrangements made in the guidelines for customer protection and grievance redressal.
- Technologies and security standards to be maintained by the different service providers, interoperability and transparency in transfer of money at various levels.
- Issues related to regulation and supervision for the banks and all other operating agencies of the value chain of the mobile payment system.

Your experiences and suggestions will help RBI to modify the guidelines for mobile payments which in turn will enhance systematic progress of financial inclusion in the country and the topic would be of great interest to the members of the Microfinance Community.

Responses were received, with thanks, from:

1. N. Jeyaseelan, Indian Bank, Madurai
2. G. K. Agrawal, Rural and Microfinance Consultant, Mumbai

3. Abhishek Sinha, Eko India Financial Services Private Limited, New Delhi
4. N. Srinivasan, Microfinance Consultant, Pune
5. Harish Chotani, Consultant, Gurgaon
6. Baladeb Sen, Microfinance Consultant, Chennai
7. Vijay Pratap Singh Aditya, Ekgaon Technologies, New Delhi
8. Abhishek Mendiratta, Consultant, New Delhi
9. Ajay Mohapatra, We The People, New Delhi
10. Shivendra Sharma, Plural India, Gurgaon
11. Mani Mamallan, CEDGE Technologies Ltd., Mumbai
12. Santanu Sengupta, Micro Money Management Enterprise/Change Innovators, Kolkata
13. Kris Dev, ICT & e-Gov Consultant, Chennai (Response 1; Response 2)

Further contributions are welcome!

Summary of Responses

Responding to a query on RBI's guidelines for mobile payments, members shared their experiences and advice on the issues of customer protection & grievance redressal, technologies, Security standards, interoperability, transparency in transfer of money and Regulation & supervision. Respondents appreciated the proactive role of RBI in introducing guidelines on mobile phone banking and considered it as an innovative model for inclusive growth. Members envisaged that mobile banking technology would be a win-win model for various stakeholders; however, the challenge lies in its effective implementation.

Discussing about Customer Protection and Grievances Redressal, members stressed that banks need to include the provision of a dedicated 'Toll Free Phone Number' in addition to a Helpdesk on their websites, for the guidance of the customers. Additionally, to ensure security and enable clients to understand the transaction, every data entry in the mobile requires being voice enabled.

Members mentioned that RBI guidelines are applicable to Know Your Customer (KYC) complaint accounts only and therefore exclude many for getting mobile phone banking services. Reviewing the existing situation of microfinance in rural areas, it is obvious that not all the SHG members and rural poor will have bank accounts. Secondly, old deposit

accounts of people may not be 'KYC Complaint Accounts'. Hence, members suggested that Business Correspondents enrolled under the mobile payment scheme could focus first on facilitating poor to have 'No Frills Accounts'. Members also argued for having differential KYC requirements for different types of accounts, depending on the use.

Discussing the issue of interoperability, members stressed on sharing infrastructure for reducing the transaction cost, saving transaction time and enabling better support for inter-bank transfers. Customers would further benefit from "anywhere" banking services.

Highlighting the importance of encryption, members mentioned that poor usually have basic mobile phones and implementing strong encryption is difficult in those phones. Stressing on the need of strong encryption for financial inclusion, respondents suggested that it could be implemented with the help of additional hardware or with some other foolproof alternative mechanism. Respondents also suggested encryption of messages across various entry and exit points for avoiding hacking. mPINs could be misused by the hackers if transmitted in clear text.

Members pointed out that since only licensed banks are proposed to be covered under mobile banking, a large number of Central Co-operative banks and a few other banks in rural areas will be outside the purview of the scheme. Respondent also noted that the guidelines are silent about the service charges to be levied by the banks for mobile payment facility. Discussants opined that the service charges in the beginning may be nil and/or have to be kept to the minimum so that poor can also have access to the proposed facility. The service charges, if any, taken by the mobile service providers, may have to be moderated and regulated in the beginning by TRAI. Members also recommended referring to RBI's Payment systems in India – Vision 2005-2008, which acts as a road map for achieving new technological and advance payment system.

Discussants stressed that Banks need to be guided by RBI to have a 'Single Point of Contact' for mobile banking services. Members suggested that Banks could use pattern recognition technologies such that they can file FIR to prevent money laundering/terrorism and also fraud especially when volume of aggregate amount reaches a scale.

Most parts of RBI guidelines assume that the clients will themselves operate the mobile phones. Members appreciated two levels of security suggested in the guidelines for the benefit of the clients. However, in terms of its implications for rural finance and vulnerable sections of people, the requirement of password and two levels of authentication (though absolutely necessary) would tend to exclude the people, who are most needy. Banking Correspondents/Facilitators (BC/BC) should be enabled to operate the mobile on behalf of the clients. To prevent misuse and track transactions, each staff of BF or BC could be given a separate code to register before putting through the client's transactions. Respondents recommended that in case of BC second level of authentication may not be needed and audio confirmation can easily be substituted for confirmation of transaction for the customer. Discussants also suggested using mobile camera for authentication of customers.

Members gave an example of "Hawala" financial network in Afghanistan, wherein efficiency and security are guaranteed in the whole chain until the transaction is successful. Besides perfecting a secured technology, discussants also highlighted the possible role of insurance companies in insuring the transactions. Respondents referred to a national level mobile service providing company which can be a good starting point for mobile banking so as to gain competitive advantage for all.

Members found the method of analysis of potential risks of frauds associated with mobile banking before starting these activities by MFIs useful. They recommended that banks as well as mobile payment service providers can have a system, integrated with periodic risk management analysis and security vulnerability assessment, to reduce fraud and system leaks. Members also suggested a third party certifier to ensure data-security and integrity of service providers. The guidelines for mobile payments may also ensure that merchants are driven to design balanced processes which do not pass on all the costs/risks to the customers. Mobile payments could be secured using biometric smart cards so that transactions are foolproof.

Mentioning the work done by a Delhi based organisation, which carries some lessons for the sector, respondents expressed that mobile phone banking can be useful for the poor migrant labourers who carry cash along with them or remit their money

back home in the rural areas primarily through money orders. Mobile banking can reduce the cost of transfer of money and also delivery time for them. For the service providers, especially MFIs and Banks, it will reduce operational cost, improve efficiency in service delivery and enable MFIs to quickly reach out to the customers living in rural areas and difficult geographical terrain. Other possible benefits enumerated by the members include saving of time, convenience, 365 days information availability, transaction alerts and payment of utility bills etc.

Additional research on the issue provides rich insights of the initiatives on regulations of mobile payments by State Bank of Pakistan and Industrial and Commercial Bank of China. Research Papers by Consultative Group to Assist the Poor (CGAP) provide detailed background on regulatory issues of branchless banking in India and Philippines.

Members concluded that all the stakeholders of the value chain of mobile phone banking such as technology service providers, MFIs, BC/BF or the banks need to work in close collaboration to make this technology cost effective, user-friendly and focused to benefit disadvantaged people.

Comparative Experiences Afghanistan

Hawala Network Services (HNS) Aids Quicker Remittances

(from Harish Chotani, Consultant, Gurgaon)

HNS is operating in Afghanistan (with a base in Dubai) through a group of individuals/companies who have bank accounts. Banks/companies/agencies use mobiles to provide information/data of the receiving party to transfer funds in Dubai accounts. The recipient MFIs also use the network to transfer funds from head office in Afghanistan to Dubai, branch office. Through the use of this Hawala service by MFIs in Afghanistan, remittances are quicker than reliance on bank branches alone.

(from Monika Khanna, Research Associate)

Pakistan Branchless Banking Regulations in Pakistan expected to Make Banking Easier

The State Bank of Pakistan has issued regulations for "branchless banking". Under the new regulations, commercial banks, Islamic banks, and microfinance

banks will be permitted to enter into arrangements with such non-bank actors in order to increase access to finance in areas where many Pakistanis remain unserved by traditional bank branches.

China

Mobile Banking Business Initiative to Improve Banking Services

Industrial and Commercial Bank of China (ICBC) had issued a notice on Mobile Banking Business – a banking service for customers to make enquiries, transfers, remittances, donations, spending, bill payments and subscribe/cancel Balance Change Reminding service according to the customer's instructions sent through mobiles. This initiative of the public sector bank is expected to improve banking services for business in the country substantially.

Philippines

Mobile Based Banking Draws Millions of Registered Users

GCash and Smart Money are two mobile-based services from two large network operators that enable customers to store money electronically and send it as a remittance or as payment for bills and store purchases in Philippines. Clients can make deposits to or withdrawals from their bank accounts at more than 5,000 merchants accredited by the central bank. At the end of 2007, the operators managed more than eight million registered users.

Related Resources

Recommended Documentation

Financial Sector Technology Vision

(from Abhishek Mendiratta, Consultant, New Delhi)

Vision Document; Reserve Bank of India, Department of Information Technology, Mumbai; June 2007; Available at <http://rbidocs.rbi.org.in/rdocs/Content/PDFs/80799.pdf>

Discusses IT related developments in the banking sector and provides a vision and a way forward in improving the functioning of the sector through use of IT.

(from Navin Anand, Resource Person)

Regulating Transformational Branchless Banking: Mobile Phones and Other Technology to Increase Access to Finance

Note; by Timothy R. Lyman, Mark Pickens, David Porteous; January 2008

Available at http://www.cgap.org/gm/document-1.9.2583/FocusNote_43.pdf

Paper discusses the assessments of policy and regulation in seven key countries, and talks about the recommendations on regulating transformational branchless banking.

Dr. Rangrajan Committee Report on Financial Inclusion

Report; National Bank for Agriculture and Rural Development (NABARD); January 2008

Available at http://www.nabard.org/pdf/report_financial/Full%20Report.pdf

Report broadly deals with the issue of financial inclusion, technology innovations and BC/BF models.

Use of Agents in Branchless Banking for the Poor: Rewards, Risks and Regulation

Note; CGAP Focus Note No. 38; October 2006.

Available at

http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/FocusNote_38.pdf

Discusses issues in regulating branchless banking, including mobile phone banking and examines the experiences of Brazil, India, South Africa, Philippines and Kenya.

(from Monika Khanna, Research Associate)

Notes on Regulation of Branchless Banking in India

Article; by Consultative Group to Assist the Poor (CGAP); January 2008

Available at <http://www.cgap.org/gm/document-1.9.2322/India-Notes-On-Regulation-Branchless-Banking-2008.pdf>

Analyses the policy, legal and regulatory environment for branchless banking in the Indian context; recommendations to overcome the barriers.

Banking on Mobiles: Why, How, for Whom?

Note; by Ignacio Mas and Kabir Kumar; 9 July 2008

Available at http://www.cgap.org/gm/document-1.9.4400/FocusNote_48.pdf

Discusses in detail the strategic values of mobile banking, implications for operating processes and interoperability of the services by banks/mobile operators.

Notes on Regulation of Branchless Banking in Philippines

Note; by Consultative Group to Assist the Poor (CGAP), May 2008

Available at <http://www2.cgap.org/p/site/c/template.rc/1.26.2118>

Discusses models of branchless banking in the country, legal challenges to branchless banking; recommendations to overcome the same.

Regulatory Framework for Mobile Banking in Pakistan

Guidelines; Banking Policy and Regulations Department, March 2008;

Draft guidelines Available at

http://www.sbp.org.pk/bprd/2007/Policy_Paper_RF_Mobile_Banking_07-Jun-07.pdf

Approved guidelines available at

http://www.microfinancegateway.com/resource-centres/reg_sup/article/45269/

Discusses regulatory guidelines of Central Bank of Pakistan; includes issues like branchless banking principles, customer protection and risk management procedures.

Notice on ICBC Mobile Banking (Short Message Service) Business

Industrial and Commercial Bank of China (ICBC)

Available at <http://www.icbc.com.cn/icbc/e-banking/mobile%20banking/notice/>

Discusses regulations for transfer and remittance of money through SMS from mobiles in China.

Recommended Organisations and Programmes Ekgaon Technologies

(from Vijay Pratap Singh Aditya, Ekgaon Technologies, New Delhi)

C-193, IIInd Floor, Opposite 'M' Block Market, Greater Kailash-I, New Delhi-110 048, India;

Tel: +91-11- 41657166; info@ekgaon.com;

<http://www.ekgaon.com/>

A company specialised in designing and developing technologies and information systems to meet the needs of developing communities.

Eko India Financial Services Private Limited

(from N. Srinivasan, Microfinance Consultant, Pune)

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 existing branch networks and new technology in combination with outsourcing.

Telecom Regulatory Authority of India (TRAI)

(from G. K. Agrawal, Rural and Microfinance Consultant, Mumbai)

Mahanagar Doorsanchar Bhawan, (next to Zakir Hussain College) Jawaharlal Nehru Marg (Old Minto Road), New Delhi-110002, Tel: 91-11-2321 1934, 2323 3466, 2322 0534, 2321 3223, traid@del2.vsnl.net.in, traid@traid.gov.in; <http://www.traid.gov.in/>

TRAI aims to ensure fair and transparent policy environment, which facilitates fair competition in the telecom sector and protects the interests of consumers.

(from Santanu Sen Gupta, Micro Money Management Enterprise/Change Innovators, Kolkata)

Industrial Credit and Investment Centre of India (ICICI) Bank, Mumbai

ICICI Bank Towers, Bandra-Kurla Complex, Mumbai-400051, Tel: 91-22-26536425; Fax: 91-22-26531233; <http://www.icicibank.com>

Private bank giving term loans to MFIs; leverages social and physical infrastructures of MFIs to disburse microfinance services through partnership model.

Housing Development Finance Corporation Limited (HDFC), Mumbai

HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai-400 013, India; Tel: (022) 2856 1818; <http://www.hdfcbank.com/>

Housing finance company with expertise in retail mortgage loans to different market segments; has a large corporate client base for its housing related credit facilities.

Reliance Communications, Mumbai

(from Harish Chotani, Consultant, Gurgaon)

Reliance Communications Limited, Dhirubhai Ambani Knowledge City, Navi Mumbai-400709,

Tel: 3037 3333; broadband@relianceada.com, <http://www.rcom.co.in/webapp/Communications/rcom/index.jsp>

Has tied up with ICICI Bank for launching money transfer on mobiles; enables customers having ICICI accounts to transfer money through Reliance network.

(from Navin Anand, Resource Person)

Asirvad Microfinance Private Ltd., Chennai
47, Whites Road, 1st Floor, Deshabandu Plaza,
Royapettah, Chennai-600014, Tamil Nadu; Tel:
91-44- 4351008/3; Fax: 91-44-28522960;
asirvadmicro@yahoo.co.in;

<http://www.asirvad.co.in/home.asp>

Works to integrate mobile phone technology into projects to provide innovative financial services in a sustainable manner to low income customers.

Snowwood Infocom Technologies Pvt. Ltd., Chennai

No 2, Kaveri Lane, East Tambaram, Chennai-600059,
Tamil Nadu; Tel: 91-44-2239-1449;

www.snowwood.com; Contact Srivathsan Vasudevan;
vasu@snowwood.com; <http://snowwood.com/index.html>

Provides mobile and web enabled microfinance solutions to organisations; specialising in mobile enabling and distributing mobile networking technology.

National Institute of Smart Government, Hyderabad

Block B, IIIT Campus, Gachibowli, Hyderabad-500032, Andhra Pradesh; Tel: 91-40-23006683-84, 91-40-23002983-84; Fax: 91-40-23006085; <http://www.nisg.org/>

Evaluated a pilot project of the Andhra Pradesh Government that uses smart cards and mobile phones for disbursing social benefits (including financial services) to citizens

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/>

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

(from Monika Khanna, Research Associate)

State Bank of Pakistan (SBP)

Central Directorate I.I. Chundrigar Road, Karachi, Pakistan; Tel: 111-727-111; Fax: +92-21 9212433; <http://www.sbp.org.pk>

SBP, has formulated policy guidelines and regulatory framework for mobile banking in the country.

Industrial and Commercial Bank of China (ICBC)

No.55 FuXingMenNei Street, Xicheng District, Beijing, P.R.C Postal Code-100032,

<http://www.icbc.com.cn/icbc/e-banking/mobile%20banking/notice/>

State owned commercial bank responsible for industrial and commercial credits, savings, accumulating social wealth and supporting national construction.

Recommended Portals and Information Bases

Mobile Payment Forum: A Joint Initiative by RTBI and IDRBT

(from Navin Anand, Resource Person)

<http://www.mpf.org.in/index.html>

Forum established to enable payments via mobile phones in India, and to ensure they are secure and low cost transactions; the first meeting was held in September 2007.

Global System for Mobile Communication Association (GSMA)

(from Monika Khanna, Research Associate)

<http://216.239.213.7/mmt/index.asp>

Provides details on the key concepts of financial regulations, outcomes and other aspects of mobile money transfer.

Related Consolidated Replies

Microfinance Services through Mobile Phone Banking in Remote Areas, from Manab Chakraborty, Mimo Finance, Dehradun (Experiences; Advice). Micro Finance Community and ICT for Development Community

Issued 2 June 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-ictd-23040801.pdf>

Shares experience of mobile phone banking in different countries as well as initiatives in India; discusses need, relevance of mobile phone banking focusing on financial inclusion.



Consolidated Reply

Query: SHG Federations as Vehicles for Social Change–Experiences

Compiled by Sumeeta Banerji and Bonani Dhar, Resource Persons and Anjum Khalidi and Sarika Dhawan, Research Associates

Issue Date: 29 June, 2007

From C. S. Reddy, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad

Posted 25 May, 2007

Dear Members,

SHGs have become a well-known model in India to promote women's empowerment and access to information, financial services, and livelihood promotion. The SHG federation model has emerged to ensure sustainability of SHGs, to provide services like auditing, training, linkages with various schemes and to perform roles that SHGs are not able to perform as informal groups.

Though SHG federations initially work as informal networks, over time they often acquire legal status as a cooperative (MACS type), society, or trust. Some of the SHG Federations act as social intermediaries, while others act as financial intermediaries, like a community owned financial institution (COFI). In certain parts of India, SHG federations are also involved in multiple functions like marketing, collective procurement and other functions.

APMAS is working on a publication based on the ratings conducted of SHG Federations. We would

like to pose the following questions to this community to derive lessons for practitioners and policy makers:

- What are the implications of SHG Federations performing multiple functions? Is it advisable to have different institutions for different purposes?
- What has been the experience related to capacities (governance, management, staff, systems, profitability, sustainability) of SHG Federations in being financial intermediaries? Would banks and other financial institutions be willing to provide bulk loans to SHG Federations?
- How does one ensure that vested interests do not overtake the functions of SHG Federations?
- Is there any experience in facilitating self-regulation and self-supervision of SHG Federations?

We are requesting information from the Microfinance Community as your response would add value to this publication. These findings would also feed into the SHG gateway (www.shggateway.in) which includes research, publications, and news on the latest developments in the SHG movement.

Responses were received, with thanks, from

1. Ramesh S. Arunachalam, Micro Finance Consulting Group, Chennai (Response 1; Response 2)
2. Sachin Bansal, Centre for microfinance, Jaipur
3. Pon. Aananth, HDFC Ltd., Tamil Nadu
4. S. Saheer, State Institute of Rural Development, Kollam
5. N. Jeyaseelan, Micro Finance Consultant, Madurai
6. Himanshu, PRajak, Kharagpur
7. Rajaratnam Abel, Independent Consultant, Chennai
8. Smita Premchander, Sampark, Bangalore (Response 1; Response 2)
9. K. K. Tripathy, Ministry of Food Processing Industries, New Delhi
10. Soma K. P., Gender and Development Consultant, New Delhi
11. Rahul Banerjee, Khedut Mazdoor Chetna Sangathan, Indore
12. L. B. Prakash, Akshara, Hyderabad
13. Tarun Kumar Debnath, SHG Promotional Forum, Kolkata
14. Kedareswar Choudhury, Darbar Sahitya Sansad, Orissa
15. Manju Agrawal, Amity University, Lucknow
16. Aditya K. Mishra, University of Hyderabad (Central), Hyderabad
17. Nandini Sharma, Council for Social Development, New Delhi
18. Manju Joshi, Centre for Community Economics and Development Consultants Society (CECOEDECON), Jaipur
19. Toms K. Thomas, Development Consultant, Pathinmathitta
20. Shobha Mishra, Development Support Team (DST), Haryana

Summary of Responses

Responding to the query on SHG Federations as vehicles for social change, members provided a wealth of experiences and insights on SHG Federations performing multiple functions, combining their financial intermediation role with social action, as well as mechanism for measuring successful self-regulation by SHG Federations.

Discussing SHG Federations undertaking multiple functions, respondents emphasised that federations need to enable true empowerment of women by using a holistic approach. This includes facilitating delivery of a wide range of services in addition to financial intermediation. Members listed a variety of multiple social activities that SHGs and their federations are performing, which strengthen group cohesion and address social issues.

Additionally, discussants reiterated, when federations are outlining the scope of their activities, they need to take into consideration the functioning of other institutions and programmes, such as PRIs, Village Education Committees (VECs), and Anganwadi centres, so federation efforts complement existing work. For example, in Madhya Pradesh a federation adopted a multi-pronged approach by working with Anganwadis to provide fortified nutrition supplements to women and children.

Respondents listed two effective approaches to managing multiple functions efficiently. One strategy is federations forming sub-committees, monitored against monthly goals based on performance indicators, as this allows women to lead, coordinate and oversee their own development agenda. The second approach is organising cluster leaders into credit, enterprise education and health committees and training them to follow up on their respective topics with their groups. This technique also reduces the number of NGO staff needed and builds the capacities of poor, rural women.

At the same time, discussants cautioned that when a single federation performs several functions, monitoring becomes difficult. They stressed that SHG federations need capacity building with the help of NGOs and donor agencies to expand their activities to perform multiple functions and that mature federations tend to be more capable of performing multiple roles than new ones.

Members suggested federations begin financial intermediation once they have the capacity to administer credit, exercise loan sanction powers and monitor. This 'phased approach' will ensure federations have the capacity to expand the scope of their activities. Sharing experiences regarding the capacities of SHG federations to act as financial intermediaries, members cited a federation from

Rajasthan involved in SBLP and making supplementary credit available to SHGs from an independent bridge fund. When the federation demonstrated the capacity to handle loans, banks approached them with bulk loans to allow the federation to do a direct financial intermediation. Respondents stressed that promoting institutions can play a significant role in building the confidence of bankers to provide bulk loans to federations. Another example mentioned was an NGO in Karnataka providing capacity-building support to SHG federations while linking them to regional rural banks that offer unsubsidised loans and invest in training of SHGs. Discussants also highlighted the experience of a government programme and recommended close coordination between self-help promoting institutions, banks and government officials to facilitate successful implementation of such initiatives.

Members reiterated the importance of providing training on self-esteem, identity and other gender issues in order to ensure that they are truly being empowered in their households and that they maintain control of their finances. Additionally, members shared examples of organisations that work to build the capacities of members to manage their own finances and recordkeeping. Other promoting agencies mentioned their experience of building the capacities of their SHGs to manage a natural resource management project.

In addition, members discussed the difficulty in addressing the problem of “vested interests” in federations. Considerable effort on the part of the promoter is required in the initial years to educate federation members on the need for participatory decision-making processes, establish transparent systems, create truly democratic systems (to ensure revolving leadership), and clearly define roles and responsibilities to prevent misuse of power. Discussants shared the experience of a federation in Rajasthan that adopted a strategy of decentralising power as a means to overcome ‘vested interests.’ The federation, with the support of its promoter NGO, ensured power was not concentrated with a select few and simultaneously built a second line of leaders. Respondents added that the chances that groups/individuals with too much power or influence within a federation will take over, reduces when federation promoters encourage federations to function as self-supporting or business-like entities where grant capital is not an option.

The federation governing board plays an integral role in its ability to facilitate self-supervision and self-regulation. Members suggested several ways by which federation boards could improve the way they conduct business. For example, making clearer rules on board decisions. Strategic vs. operational decisions, including processes and timeframe aspects; conduct board meetings led by the chairperson rather than the NGO or promoting institution’s staff; and lastly, performance of fiduciary, strategic, supervisory, and management roles of the board need to be in balance.

Other measures to promote self-regulation through transparent and accountable systems and to overcome ‘vested interests’ mentioned, included:

- Printing/Writing discussion material for board meetings
- Sharing expenditures, budget, audit and revenue information at annual meetings
- Regularly conducting annual general body meeting
- Disclosing the attendance and transactions of board members with the SHGs and SHG Federations.

Participants reiterated that self-regulated bodies could flourish only when there is a supportive regulatory framework like the Andhra Pradesh Mutually Aided Cooperative Thrift Society (MACT) Act of 1995. They noted that federations working within an enabling law often perform better, like the federations promoted in Andhra Pradesh that have demonstrated the ability to evolve into independent, self-managed institutions.

As the SHG movement continues to grow, members felt that a deeper level of analysis is required to determine whether the movement has helped in closing the gender gap. They outlined broad areas to assess the impact that access to basic credit/savings through SHGs has on the socio-economic empowerment of women. They reiterated that SHG Federations have the potential to serve as a ‘solidarity space’ to enable women to address processes of social change. Furthermore, discussants felt that SHGs have a role to play in building personal and community relationships, and cited an example from Orissa where SHGs are re-shaping the nature of the caste divisions.

Members quoted several examples like federations in Maharashtra that are successfully working on a range of social issues in their communities, by setting up

healthcare centres and ensuring water sanitation in their villages. However, this space will only result in action if the group agenda focuses and nurtures it.

In conclusion, commenting on the federation model and factors to consider while graduating SHGs to federations, members stressed the success of this model depends on the promoter's ability to build strong community-based organisations by developing community leadership, building the capacity of SHGs and federations, and providing consistent handholding support throughout its growth cycle.

Comparative Experiences

Rajasthan

(from Sachin Bansal, Centre for Microfinance, Jaipur)

Sakhi Samiti – A Self-Managed Federation in Kishangarh Bas, Alwar

Sakhi Samiti is a federation promoted by PRADAN, started in 1997. After six years, PRADAN withdrew support. Now Sakhi Samiti is managed and run by its SHG members and the members elect their own leaders. The federation also forms and trains groups, facilitates bank linkages along with providing supplementary credit to SHGs from its "Sakhi Suvidha Fund," which operates independently and serves as a bridge fund to fill the delay in receiving loans through the bank linkage initiative.

Building Institutions for Empowerment of Marginalised Communities

People's Education and Development Organisation (PEDO) developed federations in Dungarpur with the support of Dhan Foundation. PEDO decentralised the federations' power structure and practices financial transparency as an effective strategy to overcome problems with "vested interests. Now it forms sub-committees at the federation and cluster levels to address members' issues and build the capacities of members to become second-line leaders and to improve self-supervision.

Peer-Evaluation for Self-Monitoring SHG Federations

SHGs promoted by Ibtada in Alwar were evaluated in clusters by each other and based on the evaluation, awarded a colour-coded grade. The clusters were also assessed in a federation meeting, by each other. This strategy helped in improving the performance of the SHGs and clusters, and motivated members to improve their performance.

Empowerment of Women through Natural Resource Management

(from Manju Joshi, CECOEDCON, Jaipur)

The Centre for Community Economics and Development Consultants Society worked with women in the Phagi block, Jaipur district to empower them through training on natural resource management. With extensive training on all aspects of project management, the SHGs gradually grew to a cluster level federation and after the project ended in 1990, it continued to work with the block level federation. Moreover, it is now making linkages with financial institutions and networking on social issues.

Haryana

SHG Training on Handicrafts Helping Women to Gain Greater Societal Recognition

(from Nandini, Council for Social Development, New Delhi and Shobha Mishra, Development Support Team, Haryana)

Development Support Team has been working with Meo-Muslim women in Mewat district providing them training on handicrafts made from locally available material. The SHG members were also given basic training for financial literacy (basic bookkeeping, etc). As a result of their activities, the women now have a greater sense of importance and have gained respect from their families, because now they are recognised as earners along with their husbands.

Madhya Pradesh

(from Rahul Banerjee, Khedut Mazdoor Chetna Sangath, Indore)

Federations Working with NREGS for Social Change

A federation among Bhil adivasis in Jhabua district promoted by Sampark, has successfully addressed a range of social issues. It centralised the sourcing of agricultural inputs and marketing of outputs leading to immense cost advantages and gains in output price, and also put pressure on the local administration to implement NREGS efficiently. Finally, the federations are now working on other social issues such as bride price, alcoholism and labour issues.

Federations' Coordinating Efforts with Anganwadi Workers

Bharatiya Grameen Mahila Sangh, an NGO in Indore, set up a federation of women's SHGs that runs a successful operation to produce and deliver fortified nutritive supplement to almost 50 Integrated Child

Development Services (ICDS) Anganwadi centres. The women pooled their savings and bought the requisite machinery, and received bank loans for working capital to sustain their operations while they wait for the Government to pay them for their services.

Karnataka

Investing in Poor Women's Capacity Development

(from Smita Premchander, Sampark, Bangalore; response 1)

Sampark directly invests in developing women's management capabilities by organising cluster leaders into sub-committees to work on social issues and training women on how to manage their groups. The women's credit and savings needs are met through Regional Rural Banks (RRBs). Because undergoing training is often too much for poor women to pay, the NGO has found ways to pay for their "time costs", due to lost wages. As a result, it only needs three paid staff and can invest resources into clusters directly.

Andhra Pradesh

(from L. B. Prakash, Akshara, Hyderabad)

Developing Systems for Capacity Building and Self-Regulated Federations

The UNDP-South Asia Poverty Alleviation Programme (SAPAP) invested significant resources for continuous competence building of its federation members at all levels. It also adopted a 'saturation approach' to generate awareness. This approach contributed towards greater 'public knowledge' of the SHG concept and helped create village level federated structures. As a result, secondary level organisations have been formed with much greater participation and systems for self-regulation.

Creating Systems for Autonomous Federations

Federations promoted by Ankuram Sangaman Poram (ASP) are financially, administratively and legally autonomous with their own governance and management structures that manage funds. Reporting and accountability is primarily to the general body and managing committee. Now, ASO has set up standardised systems and procedures necessary for economies of scale by building consensus among members.

Creating Self-Help, Self-Regulated and Self-Supervised Federations

The Cooperative Development Foundation (CDF) promotes thrift cooperatives (TCs), though different

from SHG Federations. CDF works to put into practice the concepts and systems for self-help and self-regulation. Members of TCs come together to save, to access credit and insurance, and for training provided by CDF. With initial assistance from CDF, the TCs are now independent and self-governing institutions.

Maharashtra

Federations Bringing about Social Change

(from Soma K. P., Gender and Development Consultant, New Delhi)

The members of federations promoted by Swayam Shikshan Prayog (SSP) are moving 'beyond credit' and financial intermediation, and are exhibiting their collective capacity by serving as equal partners in village development. They are now involved in local elections, monitoring the performance of village primary healthcare centres, participating actively as members of the village education committees, and addressing issues of water and sanitation in their areas.

Orissa

SHGs Gradually Changing the Nature of Caste Structures

(from Aditya K. Mishra, University of Hyderabad (Central), Hyderabad)

The World Bank funded National Agricultural Technology Project formed several village level SHGs of men and women to disseminate agricultural technologies to grassroots level farmers. In the process, SHGs also developed several micro/home-based activities (apart from credit and thrift system) in order to sustain their group operations. Since all the members worked together in the same location for a common cause, there was a gradual change in the nature of the caste structure in the village.

Multiple States

Building Capacities of Federation Members

(from Soma K. P., Gender and Development Consultant, New Delhi)

Mahila Samakhya has adopted an innovative strategy to build the capacities of its federation members in several states. Women members agree to take the lead on a range of issues. For example, two women take the primary role on addressing learning on violence and legal rights, and two others on livelihoods issues.

As a result, members are trained and educated on issues relevant to their socio-economic needs as well as having the opportunity to build their capacities as leaders.

Related Resources

Recommended Organisations

(from Sachin Bansal, Centre for Microfinance, Jaipur)

Ibtada, Alwar

Plot No. 4, Scheme 8, Gandhinagar, Alwar, Rajasthan-301001, Tel: 0144-270-2452/3121;

Fax: 0144-234-5509; <http://www.ibtada.org/index.htm>

Conducts peer-evaluates of its SHGs in clusters by awarding a colour-coded grade in federation meetings which has helped improve the performance of the SHGs and monitor their mechanisms.

Sakhi Samiti, Alwar

Near TV Tower, Kishangarh Bas, Alwar District, Rajasthan;

Federation registered under the Rajasthan Societies Act, 1958 providing supplementary credit to SHGs from the Sakhi Suvidha fund.

People's Education and Development Organisation (PEDO), Dungarpur

Mada Village, Bicchiwara Block, Dungarpur District, Rajasthan-314001, Tel: 02964-261128;

Fax: 02964-261129;

http://www.barefootcollege.org/profiles/pedo/ORGANISATION_PROFILE_12-7-2006.pdf

The organisation profile provides information about the sub-committees at the federation and cluster level including women's federation of microfinance.

Kudumbashree, Kerala

(from S. Saheer, State Institute of Rural Development, Kollam)

State Poverty Eradication Mission, 2nd Floor, TRIDA Rehabilitation Building, Chalakuzhy Road, Medical College PO, Thiruvananthapuram-69501, Kerala; Tel: 0471-2554714-7; Fax 0471-2334317;

<http://www.kudumbashree.org/concepts/html/general.html>

NGO's networking system includes building Area Development Societies (ADS) and Community Development Societies (CDS) to address the socio-economic needs of its SHG members.

Sampark, Bangalore

(from Smita Premchander; response 1)

No. 120/A, First Floor, 17th Main, KHB Colony, 5th Block, 2nd Cross, Near Mamoor Masjid, above Apex Bank, Koramangala, Bangalore-560095, Karnataka; Tel: 080-25530196/21268; Fax: 080 25529557; http://sampark.org/main_about_us.htm

NGO invests in developing the capabilities of its women members to enable them to manage SHGs and cluster associations, through supportive training programs.

Bharatiya Grameen Mahila Sangh, Indore

(from Rahul Banerjee, Khedut Mazdoor Chetna Sangath, Indore)

Scheme No. 71, Sector D, Behind Chandan Nagar Police Station, Indore-452002, Madhya Pradesh; Tel: 91-731-2382409/8873; Fax: 91-731-2789793, 2540364

Multipurpose SHG federation as one of its social initiatives, prepares and distributes nutritive food supplements to ICDS centres.

(from Soma K. P., Gender and Development Consultant, New Delhi)

Nirantar, New Delhi

B-64 Second Floor, Sarvodya Enclave, New Delhi-110017, Tel: 011-2696-6334; Fax: 011-2651-7726; <http://www.nirantar.net/>

Resource centre for women and education that is working to explore the issues of gender equity and effective poverty alleviation through the SHG movement.

Swayam Shikshan Prayog (SSP), Mumbai

5th Floor, Bhardawadi Hospital, Bhardawadi Road, Andheri West, Mumbai-400058, Maharashtra; Tel: 022-22907586, 26771132; Fax: 022-26771132; <http://www.sspindia.org/programmes.htm>

Builds the core social, economic and political competencies of SHGs to meet their needs for crisis and productive loans, address social issues and bridge priorities with local governments.

Mahila Samakhya, Ministry of Human Resource Development, Government of India, New Delhi

Shastri Bhawan, New Delhi-110001, Tel: 91-11-031-61336; Fax 91-11-23074113; <http://www.education.nic.in/ms/ms.asp>

National programme which encourages its members to identify their social agenda and build the capacities of SHGs to work together to address their concerns.

(from L. B. Prakash, Akshara, Hyderabad)

Cooperative Development Foundation (CDF), Hyderabad

House No. 3-5-43/B, Opposite, Jagruti College, Ramkote, Hyderabad-500001, Andhra Pradesh; Tel: 040-2475-0327; Fax: 040-2475-0327; <http://www.sahavikasa.coop/thrift.htm>

Thrift cooperatives and their federations promoted by CDF exemplify the concepts and practices of self-help, self-regulation and self-supervision.

Ankuram Sangamam Poram (ASP), Secunderabad

Plot No. 142 & 143, AP Text Book Colony, Transport Road, Karkhana, Secunderabad-500009, Andhra Pradesh; Tel: 40 27894574; Fax: 40 27894573; <http://www.ankuram.com/Federationatwork.htm>

ASP builds client-owned and managed institutions at the SHG, federation and MACS (Mutually Aided Cooperative Society) levels and offers credit, savings and insurance services.

Centre for Community Economics and Development Consultants Society (CECOEDECON), Jaipur

(from Manju Joshir)

SWARAJ Bhavan, F-159-160, Industrial and Institutional Area, Sitapura, Jaipur-302022, Rajasthan; Tel: 0141-2771488/855; Fax: 0141-2770330; <http://www.cecoedecon.org/nrm.asp>

Works with SHGs integrated with its natural resource management programme and provides training to SHG members to build their capacity to self-manage projects.

World Bank National Agricultural Innovation Project, New Delhi

(from Aditya K. Mishra, University of Hyderabad (Central), Hyderabad)

70 Lodi Estate, New Delhi-110001, Tel: 011-24617241; *Project contributes to the sustainable transformation of Indian agricultural sector to relieve poverty, and promote income-generating activities through SHGs.*

Tamil Nadu Corporation for Development of Women Ltd., Chennai

(from Sarika Dhawan, Research Associate)

Project Management Unit, TNCDW Ltd., Guindy, Chennai-600032, Tamil Nadu; tncdw@disnetdsl.net; <http://www.tamilnaduwomen.org/federations.htm>
Organisation working towards the development of the panchayat-level federations of women SHGs.

Recommended Documentation

(from Sachin Bansal, CMF, Jaipur)

Creating an Enabling Environment for Women to Empower Themselves: PRADAN's Microfinance and Livelihoods Programme

By Md. Amjad Khan; PRADAN

http://www.genfinance.info/Chennai/Case%20Studies/PRADAN_Chennai.pdf

Outlines PRADAN's strategy for promoting SHG federations and building solidarity; cites their work with Sakhi Samiti, which is now managed by SHG members and independently run.

Sa-Dhan Newsletter

Special Issue on Community-Based Organisations, Vol. 4, Issue 2; May 2003

http://www.sa-dhan.net/Adls/Microfinance/Vol/vol4_issue2_may2003.pdf

Shares PRADAN's experience in networking SHGs, its approach to SHG-microfinance, highlighting how it has now evolved into a self-managed federation.

Status of SHG Federations in Andhra Pradesh: APMAS Assessment Findings

By C. S. Reddy and L. B. Prakash; Microfinance Gateway; March 2003

http://microfinancegateway.org/files/13556_apmaspaper.doc

Paper presented at the 'SHG Federation Workshop' held by the National Institute of Public Cooperation and Child Development and Sa-Dhan, outlines various SHG Federation models.

Self-Help Groups in India: A Study of the Lights and Shades

Andhra Pradesh Mahila Abhivruddhi Society (APMAS); 2006

<http://www.apmas.org/pdf%5Cm.pdf>

Explores the socio-economic benefits of SHGs as well as the challenges that SHGs are facing; also looks at what can be done to optimise the benefits, address and overcome the challenges.

Quality Issues in the Microfinance Sector in Rajasthan

Andhra Pradesh Mahila Abhivruddhi Society (APMAS) and Centre for microFinance (CmF) Jaipur; 2006

<http://www.cmfrac.org/shgqreport.pdf>

Article lists good practices in SHG/federation promotion activities adopted by various MFIs and SHPIs, including PEDO and details inputs needed for promoting and monitoring quality issues.

(from Soma K. P., *Gender and Development Consultant, New Delhi*)

Changing Lives, Transforming Communities – Swayam Shikshan Prayog (SSP): A Decadal Journey
By Aarti Saihje; Grassroots Women's International Academy (GROOTS); May 2002

http://www.groots.org/articles/SSP_doc1.doc

Document details SSP's evolution over the last decade and investigates the multiple activities federations promoted by SSP are involved with beyond basic financial intermediation.

Examining Self-Help Groups: Empowerment, Poverty Alleviation and Education

By Jaya Sharma and Soma K. Parthasarthy; 2007

<http://www.solutionexchange-un.net.in/mf/cr/res25050701.doc>

Executive summary presents the findings of a study on SHGs and cites a case where it promoted a social agenda for federations in addition to providing financial intermediation.

Institutionalising Gender, Engendering Institutions: Issues for Consideration for the Eleventh Plan

By Soma Kishore Parthasarthy; August 2006

http://www.solutionexchange-un.net.in/mf/comm_update/res-06-130607-01.doc

Paper discusses the exclusion of the poorest, and the capacity building limitations and other pertinent issues in gender mainstreaming with relevance to SHG movement.

Self-Help Groups – Relevance to Poverty Alleviation and Women's Empowerment

Nirantar –Centre for Gender and Education; 2007

http://www.solutionexchange-un.net.in/mf/comm_update/res-06-130607-24.doc

Memorandum details the views of activists, practitioners and researchers on equity and gender justice with a focus on the SHG movement and makes recommendations for the next five Year Plan

Micro-Credit, Poverty and Empowerment: Linking the Triad

Edited by Neera Burra, Joy Deshmukh-Ranadive and Ranjani K. Murth; Sage, New Delhi; 2005

<https://www.vedamsbooks.com/no42696.htm>

Contains case studies that offer lessons on institutional structures of SHGs and processes that facilitate women's empowerment and poverty reduction through micro-credit services.

ANANDI India

(from Linda Mayoux; Aga Khan Foundation; September 2005)

http://www.genfinance.info/Case%20Studies/ANANDI_genfinance.pdf

Case study documenting the work of ANANDI India, an NGO working with SHGs, which uses participatory tools to help empower its SHG members.

Organisational Profile of Sampark Samaj Sevi Sanstha, Madhya Pradesh

(from Rahul Banerjee, Khedut Mazdoor Chetna Sangath, Indore)

The Barefoot College

<http://www.barefootcollege.org/profiles/sampark/Organisational%20Profile.pdf>

Document details Sampark's work in microfinance, sustainable livelihoods and its promotion of a federation of Bhil adivasis in Jhabua district that is working to improve implementation of NREGS.

Framework for Developing Health Insurance Programmes – Some Suggestions for States

(from S. Saheer, State Institute of Rural Development, Kollam)

Ministry of Health and Family Welfare, Government of India, New Delhi

http://mohfw.nic.in/NRHM/Documents/framework_for_health_insurance.pdf

Document outlines the goals and strategy proposed by the Government to deliver health insurance programmes, including the role of the SHG Federation Kudumbashree in Kerala.

Andhra Pradesh Mutually Aided Cooperative Societies Act 1995

(from K. K. Tripathy, Ministry of Food Processing Industries, New Delhi)

Microfinance Gateway; June 1995

http://www.microfinancegateway.org/files/24919_file_law_India_04.pdf

Act was created to provide a legislative framework, within which cooperatives can operate which may be used as a reference for SHG Federations.

Savings and Credit Movement of Andhra Pradesh (AP)

(from L. B. Prakash, Akshara, Hyderabad)

By Sankar Datta and Vijay Mahajan; Basix

Details major initiatives and methodologies of SHG Federations developed in AP, including those

promoted by CDF and UNDP-SAPAP which serve as examples of how SHGs can be self-managed.

Summary Record of the Presentation by Civil Society Groups from Mewat, Haryana

(from Nandini Sharma, Council for Social Development, New Delhi)

Yojana Bhavan Planning Commission; June 30, 2005
http://planningcommission.nic.in/data/ngo/csw/csw_1.pdf

Document details the work of NGOs working in Mewat, Haryana and highlights the work of DST working with SHGs and socio-economic empowerment.

(from Sarika Dhawan, Research Associate)

Panchayat-level Federations of Women SHGs to be Set Up

By R. Vimal Kumar; The Hindu; June 23, 2005

<http://www.hindu.com/2005/06/23/stories/2005062310260300.htm>

Article covers Mahilar Thittam, an organisation planning to establish three more panchayat-level federations (PLFs) of women SHGs in Tuticorin district.

MACS for SHG Federations of Microfinance Institutions

Indian School of Microfinance for Women, Gujarat; June 2006

http://www.ismw.co.in/brochure_macs.doc

Note on a five-day course conducted at Ahmedabad that focused on the principle of MACS for sustainable promotion of federations.

Recommended Portals and Information Bases

The SHG Gateway

(from C. S. Reddy, APMAS, Hyderabad)

www.shgateway.in

Knowledge dissemination forum that includes diverse voices and experiences involved in SHG movement.

Sustainable Microfinance for Women's Empowerment

(from Sarika Dhawan, Research Associate)

<http://www.genfinance.info/>

Website brings together resources for a detailed discussion on the concepts of SHG-microfinance relating to the issues of gender, livelihood development and other issues for social change.



Consolidated Reply

Query: Resources on Forming SHGs and Streamlining Procedures–Examples and Referrals

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issue Date: 9 August, 2007

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Posted: 9 August, 2007

Dear Community Members,

UNODC, under its various projects, develops women support groups who have evolved as SHGs. The members are either affected or afflicted wives/widows and partners of drugs users which formed into SHGs for psychosocial support. They receive capacity building from the Peer Educators to help them to access available health related and legal services, in addition to obtaining information on HIV/AIDS/STD and safer sexual practices.

Some of the SHGs have started initiating small income generating activities and are able to support the educational needs of their children and supplement the household income. This component of the Project is underway in the following 12 states: Nagaland, Mizoram, Meghalaya, Manipur, Assam, Arunachal Pradesh, Sikkim, West Bengal, Bihar, Maharashtra, Gujarat and Delhi.

We are in the process of developing our internal training manuals to form SHGs and streamline support procedures. Regarding this, I request the Microfinance Community members to share with us examples (such as training modules, reports, etc.) on the following:

- 1) Forming, managing, monitoring and evaluating SHGs
- 2) Linking SHGs to various schemes and grants
- 3) Standard grading/rating procedures for SHGs
- 4) Mobilising SHGs for thrift and savings.

I would also appreciate names of organisations or

people who have developed or are working on such resources. Your inputs would help us in developing our internal training manuals and contributions will be acknowledged accordingly.

Responses were received, with thanks, from

1. Sanjeev Kumar, GOAT India, Lucknow
2. Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad
3. Bharati Joshi, Centre for Microfinance, Jaipur
4. Pravin Kumar, Bandhua Mukti Morcha, New Delhi
5. G. K. Agrawal, National Bank for Agriculture and Rural Development (NABARD), Mumbai (Response 1; Response 2)
6. Ashish Shrivastav, Vimarsh – The Consultancy Group, Bhopal
7. C. S. Reddy, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad
8. Rakesh Malhotra, Agricultural Finance Corporation (AFC), New Delhi (Response 1; Response 2)
9. T. Asaithambi, Dhan Foundation, Madurai
10. N. Jeyaseelan, Microfinance Consultant, Madurai
11. Pawan Kumar, International Fund for Agricultural Development (IFAD), Dehradun

Further contributions are welcome!

Summary of Responses

Responding to a query seeking inputs for developing training manuals on how to form SHGs and streamlining SHG support services, respondents provided a wealth of resources, including SHG manuals, ways to link to government schemes, SHG rating/grading tools, and information on savings and thrift mobilisation. They also drew on their experience and extensive work in the area to recommend various experts and training courses, as well as flagging issues to consider when developing manuals on SHG promotion.

Several organisations in the microfinance sector have developed manuals to guide practitioners on forming, managing, monitoring and evaluating SHGs. NABARD, an apex institution running the Government's large SHG-bank linkage programme has done extensive work in this area, members noted. They highlighted its efforts to provide technical assistance to banks and NGOs involved with SHG promotion and lending, and in developing SHG promotion guidelines, which now serve as a roadmap for the microfinance sector in India.

Discussants noted the NGO MYRADA has published several manuals on capacity building, finance and management systems for SHGs, which include criteria for social audit and impact monitoring. In addition, MYRADA has published material on "lessons learned" from their experiences with SHGs, particularly highlighting solutions to common challenges faced by Self-Help Promoting Institutions (SHPIs).

Highlighting other SHG promoters, members mentioned PRADAN's work in developing standard operation procedures (SOPs) and helping SHGs play multiple roles, such as providing mutual help, financial intermediation, livelihood planning and social empowerment. Dhan Foundation, CARE's Credit and Savings for Household Enterprises (CASHE) Project, the Swashakti Project, and UNDP South Asia Poverty Alleviation Project (SAPAP) in Andhra Pradesh have also developed SHG training manuals.

Along with listing various manuals available on SHG promotion, participants shared information on national Government schemes that link to SHGs. For example, the programmes under the Development of Women and Children in Rural Areas (DWCRA), SGSY and SBLP initiated by RBI and NABARD. At the state government level, members highlighted the Tamil Nadu Women's Development Corporation, which has developed very useful training modules and rating

tools. Additionally, they shared information on a SHG promotion manual for more than 20 different schemes of the Government of India that also covers NABARD and RBI's instructions on:

- Microfinance operations
- Opening savings accounts
- Grading SHGs
- Linking SHGs with credit through government schemes, such as Rashtriya Mahila Kosh (RMK), Velegu and others.

On a related note, discussants highlighted Development Alternatives' work to promote SHGs as a mechanism to strengthen livelihoods and promote awareness of trafficking prone communities about HIV/AIDS which led to some new concepts in implementing the UNDP TAHA project, which seeks to promote awareness through SHGs to prevent trafficking and HIV in women and girls.

As the sector increasingly focuses on improving operational efficiency and impact of SHGs, members pointed out several organisations have developed grading and rating procedures for SHGs. For example, the Andhra Pradesh Mahila Abhivruddhi Society (APMAS) created training modules, participatory assessment tools, grading, accounting and bookkeeping systems, and a Management Information System (MIS) for SHGs. Another initiative – the Uttarakhand Livelihood Project – has also developed modules for SHG empowerment and assessment in addition to collecting case studies and field guides for SHG promoters, detailing the activities that SHGs need to carry out at different stages.

In response to the request for examples of mobilising SHGs for thrift and savings, members stressed these efforts are critical for economic empowerment. They shared various documents on the topic, such as the "ABC on SHG Bank Linkage" intended to simplify procedures for banks and NGO field staff along with emphasising the work that NABARD has done to lay guidelines for thrift and savings mobilisation.

Finally, discussants shared SHG promotion, best practices and sustainability indicators drawn from the in-depth experience of community members in this area. They advised SHG promoters include literacy support to help members learn basic mathematics and be able to better market their products, along with providing leadership and management training. Moreover, respondents recommended regular follow-

up with SHGs to offer support in selecting the appropriate enterprises and improve awareness about government's schemes they could benefit from. They also cautioned against translating or copying existing modules/tools without fully understanding them or adopting the procedures to meet local needs.

In addition to sharing numerous SHG manuals, guidelines for linking SHGs to government schemes and savings and thrift mobilisation efforts, discussants recommended experts in the field and courses offering increased knowledge and support to SHG promoters. Members felt these resources can help SHG promoters to improve efficiency in SHG formation, combining various support services with financial intermediation as well as build the capacities of SHGs.

Related Resources

Recommended Documentation

Manual on SHG Promotion

(from Rakesh Malhotra, Agricultural Finance Corporation (AFC), New Delhi)

Manual; by Mr. Rakesh Malhotra; Agricultural Finance Corporation (AFC), New Delhi; 2007

Available at Atlantic Publishers and Distributors, B-2, Vishal Enclave, Opposite Rajori Garden, New Delhi-110027, Tel: 011-25413460/29987/66842; info@atlanticbooks.com (in Hindi)

Guide on promoting SHGs for 20+ government schemes, includes information on RBI guidelines for opening accounts, grading SHGs and creating credit linkage between groups.

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

ABC on SHG Bank Linkage

Document; by Mr. N. Jeyaseelan; Microfinance Consultant, Madurai

Available at <http://www.solutionexchange-un.net.in/mf/cr/res16070701.doc>

Document developed for training frontline staff of Indian Bank's Special Unit for Microfinance (IBSUM) covering basic principles for SHG movement and group formation.

An Interactive Session with SHG Members

Document; by Mr. N. Jeyaseelan; Gandhigram

Available at <http://www.solutionexchange-un.net.in/mf/cr/res16070702.doc>

Record of a moderated question and answer

session with 40 SHG members held at Gandhigram which clarifies many operational issues faced by SHG members.

Best Practices in SHG Promotion

Document; by Mr. N. Jeyaseelan; Microfinance Consultant, Madurai

Available at <http://www.solutionexchange-un.net.in/mf/cr/res16070703.doc>

Note outlining best practices gathered by the author after 15 years of trial and experience of working on SHG promotion, includes criteria for forming and regulating SHGs. -NOT CLEAR(trial and error- was written)

Sustainability Indicators for SHGs

Document; by Mr. N. Jeyaseelan; Microfinance Consultant, Madurai

Available at <http://www.solutionexchange-un.net.in/mf/cr/res16070704.doc>

List of indicators outlining the areas where SHGs need to be trained to improve sustainability of the group.

Development of Women and Children in Rural Areas Programme (DWCRA)

(from C. S. Reddy, APMAS, Hyderabad)

Book; by Development of Women and Children in Rural Areas (DWCRA), New Delhi; 2003

Available at <http://www.icmr.icfai.org/casestudies/catalogue/Economics/ECON011.htm>

Case studies from the DWCRA's microfinance programmes promoting SHGs in Andhra Pradesh.

(from Anjum Khalidi, Research Associate)

Promotion of Self-Help Groups under the SHG Bank Linkage Programme in India

Article; by Mr. Malcolm Harper; NABARD; November 2002

Available at: http://www.ruralfinance.org/servlet/BinaryDownloaderServlet?filename=1114645903863_Promotion_of_SHGs.pdf

Paper presented on SBLP, examining and comparing how SHPIs endorse SHGs in order to enhance the efficiency and quality of the SHG promotion process.

Creating an Enabling Environment for Women to Empower Themselves: PRADAN's Microfinance and Livelihoods Programme

Document; by Mr. Amjad Khan; PRADAN, New Delhi
Available at http://www.genfinance.info/Chennai/Case%20Studies/PRADAN_Chennai.pdf

Details the NGO PRADAN's approach to promoting SHGs; includes steps to operationalise financial intermediation, livelihood planning and sector-specific interventions.

RBI & NABARD – Guidelines on Linking Self-Help Groups with Banks

Book published by PRADAN, September 1998
Available at: <http://www.un.org.in/iawg/icecd/39.htm>

Booklet is useful for training purpose for Banks, NGOs, etc. involved in financing and/or formation of SHGs; may be used to appraise bankers and credit service providers for linkages with SHGs.

Recommended Contacts and Experts

Mr. N. Jeyaseelan, Microfinance Consultant, Madurai

(from N. Jeyaseelan)

Tel: 9344108120; vijayjeyaseelan@yahoo.co.in

Worked with IBSUM and has developed many materials for SHG promotion and improving quality and impact of microfinance services.

Recommended Organisations and Programmes

(from Sanjeev Kumar, GOAT India, Lucknow; G. K. Agrawal, NABARD, Mumai; Pravin Kumar, Bandhua Mukti Morcha, New Delhi; and C. S. Reddy, APMAS, Hyderabad)

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

Second Floor, 'E' Wing, C-24, 'G' Block, Bandra-Kurla Complex, Bandra (East), Mumbai-400051, Maharashtra; Tel: 022-26539272; Fax: 022-26528141
mcid@nabard.org; http://www.nabard.org/dept_mcid/shgs.asp

NABARD has spearheaded SBLP and in the process refined the SHG formation process and developed training materials for replicating the SHGs.

Professional Assistance for Development Action (PRADAN), New Delhi

3 Community Shopping Centre, Niti Bagh, New Delhi-110049, Tel: 011-26518619/4682/34061, 41640611; headoffice@pradan.net;
http://www.pradan.net/index.php?option=com_content&task=view&id=33&Itemid=19;
Contact: Mr. D. Narendranath; Tel: 011-26518619; headoffice@pradan.net

Pioneer in self-help promotion formed the first SHG in Alwar, 1987; developed training materials and manuals on SHG formation, including Standard Operation Procedures for SHG promotion.

MYRADA, Bangalore

(from Sanjeev Kumar, GOAT India, Lucknow and C. S. Reddy, APMAS, Hyderabad)

No. 2, Service Road, Domlur Layout, Bangalore-560071, Karnataka; Tel: 080-25352028/3166/4457; Fax: 080-25350982; myrada@vsnl.com; <http://www.myrada.org/publications.htm>

Self-help organisation, which has developed several training modules on promoting community-based organisations around savings, credit and livelihood promotion.

(from Sanjeev Kumar, GOAT India, Lucknow)

Development Alternatives, New Delhi

111/9-Z, Kishangarh, Vasant Kunj, New Delhi-110070, Tel: 011-2613-4103, 2689-0380;

Fax: 011-2613-0817 tara@deval.org; <http://www.deval.org/thematic.htm>; Contact: Mr. Santosh Pathak; Tel: 011-2613-4103, 2689-0380; Fax: 011-2613-0817; tara@deval.org

Used SHGs as an innovative mechanism to strengthen livelihoods and promote awareness of trafficking prone communities about HIV/AIDS; model has been used in the UNDP TAHA Project.

TAHA Project, New Delhi

UNDP, 55 Lodhi Estate, New Delhi-110003, Tel: 011-32445057; Fax: 011-24652296; taha.in@undp.org; <http://www.traffickingandhiv.org/about.aspl>

Project supported by UNDP and Development Alternatives, uses SHGs to promote awareness and prevent trafficking and HIV in women and girls.

Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad

(from C. S. Reddy and Raman V. Machiraju, Elitser IT Solutions Pvt. Ltd., Hyderabad)

Plot 20, Rao and Raju Colony, Road 2, Banjara Hills, Hyderabad-500034, Andhra Pradesh; Tel: 040-2354-7952/27, 23555864; Fax: 040-2354-7926; info@apmas.org; www.apmas.org; Contact Mr. C. S. Reddy, CEO; Tel: 040-23547952; creddy@apmas.org

Promoting the SHG movement, APMAS has developed training modules, participatory assessment tools, grading, bookkeeping and MIS.

(from Bharati Joshi, Centre for microFinance, Jaipur)

Centre for microFinance, Jaipur

C/o Indian Institute of Health Management Research, 1, Prabhu Dayal Marg, Near Sanganer Airport, Jaipur-302011, Rajasthan; Tel: 0141-2791431-34; Fax: 0141-2792138; cmf@iihmr.org, info@cmfraj.org; <http://www.cmfraj.org/index.htm>; Contact: Ms. Bharati Joshi, Tel: 0141-2791431-34; Fax: 0141-2792138; cmf@iihmr.org

Seeks to promote and strengthen the microfinance and SHG movement in Rajasthan; has developed training courses on microfinance and SHG promotion.

Indian School on Microfinance for Women (ISMW), Ahmedabad

2nd floor, Shukun Arcade, Nr. Medisurge Hospital, Mithakhali Six Road, Ahmedabad-380006, Gujarat; Tel: 079-2642-2819; Fax: 079-2642-2819; postmaster@ismw.co.in; <http://www.ismw.co.in/offering.htm>

Offers a wide variety of courses for microfinance and SHG promotion; also provides technical support and training of trainers.

Indira Gandhi National Open University (IGNOU), New Delhi

Maidan Garhi, New Delhi-110068, Tel: 011-29532321; Fax: 011-29536588; <http://www.ignou.ac.in/>

Offers course on SHGs and Women's Empowerment, with the Ministry of Human Resource Development (MoHRD) and the Department of Women and Child Development (DWCD).

Dhan Foundation, Madurai

(from Ashish Shrivastav, Vimarsh – The Consultancy Group, Bhopal)

18, Pillaiyar Koil Street, S.S. Colony, Madurai-625016, Tamil Nadu; Tel: 452-2610794, 2610805; Fax: 452-2602247; dhan@md3.vsnl.net.in; <http://www.dhan.org/themes/kalanjiam.php>

Kalanjiam is Dhan's extensive community banking programme and has prepared various manuals on SHGs.

(from C. S. Reddy, APMAS, Hyderabad)

Swashakti Project, New Delhi

Shastri Bhawan, Jeevandeep Building, Dr. Rajendra Prasad Road, New Delhi-110003, Tel: 011-231-61542; http://www.nird.org.in/res03_19.html

Project aimed to promote self-empowerment of rural women, has developed valuable SHG

training modules in collaboration with various organisations.

UNDP South Asia Poverty Alleviation Project (SAPAP), New Delhi

55 Lodi Estate, New Delhi-110003, Tel: 011-32445057; Fax: 011-24652296; <http://www.undp.org/rbap/sapap.htm>

UNDP's largest regional programme in Asia; has developed several training modules, posters, and other participatory tools on SHG promotion and grading.

Tamil Nadu Corporation for Development of Women Ltd., Guindy

100 Anna Salai, Guindy-600032, Tamil Nadu; Tel: 044-42085804; Fax: 044-22352751; tncdw@tn.nic.in; <http://www.tamilnaduwomen.org/federations.htm>

Has been working with SHGs to build skills and entrepreneurship; developed useful training modules and rating tools based on extensive experience.

CARE India CASHE Project, New Delhi

28, Hauz Khas Village, New Delhi-110016, Tel: 011-26510915; Fax: 011-26510915 <http://careindia.org/ManageProgrammeKey/VisitProgrammeCategory.aspx?CategoryId=3;>

CARE microfinance project now evolved into a legacy institution, ACCESS Development Services, works in several states to provide technical support to MFIs and SHPIs.

Uttarakhand Gramya Vikas Samiti, Dehradun (from Pawan Kumar, IFAD, Dehradun)

188, Vasant Vihar, Phase I, Dehradun, Uttarakhand; Tel: 0135-2762800/798; ajeevika@gmail.com, uliph05@yahoo.com; <http://www.ajeevika.org.in/empowerment.htm>

Developed model guidelines for SHGs including financial intermediation and SHG assessment; also covers how to handle the growth of SHG during various stages in its lifecycle.

Reach India, New Delhi

13 Palam Marg, 2nd and 3rd Floors, Vasant Vihar, New Delhi-110057; Tel: 011-41662317-21; Fax: 011-41662322; reach@reachindia.org; http://www.reachindia.org/partner_ngos/kolkata.htm

Working to promote SHGs (working on microfinance issues) in remote areas of the northeast through its network of partner NGOs and grantees.

(from Rakesh Malhotra, Agricultural Finance Corporation (AFC), New Delhi)

Rashtriya Mahila Kosh (RMK)

1 Abul Fazal Road, Bengali Market, New Delhi-110 001, Tel: 011-23354619, 011-23354620, 011-23354628; Fax: 011-23354621, ed_rmk@nic.in; Available at: <http://rmk.nic.in/newscheme.htm>

Wholesaling government agency extending micro-credit and other support services to SHG Promoters.

Velegu, Hyderabad

4th Floor, Hermitage Office Complex, Door No. 5-10-192, Hill Fort Road, Hyderabad-500004, Tel: 040-23298981; Fax: 040-23211848; Available at: http://www.velugu.org/Component/inst_poor.html?id=8_27

Promotes SHGs and federations and supports thrift and credit activities, participatory monitoring of SHGs and group level poverty reduction plans.

Recommended Portals and Information Bases The SHG Gateway

(from C. S. Reddy, APMAS, Hyderabad)

www.shgateway.in

Knowledge dissemination forum which includes a variety of resources on the SHG movement and microfinance sector in India.

Recommended Training Courses

Six Month Certificate Course in Microfinance, Agricultural Finance Corporation (AFC), New Delhi

(from Rakesh Malhotra, Agricultural Finance Corporation (AFC), New Delhi)

B-1/9, Community Centre, Janakpuri, New Delhi-110058, For details contact the CEO; Tel: 011-25596976/0810

Distance education course designed for NGO field staff, government officials, bankers and other SHPIs to become strong facilitators/animators.

Certificate in MicroFinance Development and Management (mFDM), Centre for microFinance, Jaipur

(from Bharati Joshi, Centre for microFinance, Jaipur)

Information available at <http://www.cmfrac.org>; for details contact Ms. Bharati Joshi; cmf@iihmr.org

Six months residential course for young graduates from Rajasthan aimed at enhancing the quality of human resources engaged in organising and promoting SHGs in the state.

Related Consolidated Replies

SHG Federations as Vehicles for Social Change,

(from C. S. Reddy, APMAS, Hyderabad (Experiences). Microfinance Community and Gender Community.)

Issued 29 June, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-gen-25050702.pdf>

Shares experiences of SHG Federations performing multiple roles, including financial intermediation, capacity development and agents for addressing various social issues.



Consolidated Reply

Query: Creation of a Sustainable Community-based Microfinance Model- Experiences

Compiled by Anand Kumar, Coordinator and Anjum Khalidi, Research Associate

Issue Date: 4 March, 2008

Compiled by Anand Kumar, Coordinator and Anjum Khalidi, Research Associate

Posted: 4 March, 2008

We are working on an integrated project with focus on gender, governance and rights of the marginalised and excluded communities living in the remote areas of Gujarat. During the project period, we were able to bring out significant changes in the lives of our target groups as well as build confidence among members of the community. In our project, there are 72 SHGs with almost 1,150 members and they are all engaged in inter-loaning efficiently, with a very low default rate.

The women are well-versed with the functioning of the SHG. We also have one federation which is effectively running and catering to the needs of members. The loans are taken mostly for livelihood and health purposes. The federation has a corpus of around Rs. 25 lakh which came as a revolving fund from donor agencies. This amount is apart from the savings of SHG members.

We are now planning our phase-out strategy from some of the areas and the major challenge we are facing is in creating institutional sustainability. I'd like to know the experiences of members on the following:

- What kind of institutional arrangements have proved to be successful in promoting financial viability while at the same time allowing women to manage the institutional corpus themselves?
- What critical issues should be considered while developing an efficient and sustainable phase-out strategy?
- Are there examples of models created by any agency? If so, what were the processes required for its formation?

I would appreciate members' experiences and examples on financial system development as well as sustainable phase-out strategies for SHGs and federations.

Responses were received, with thanks, from

1. Sanjeev Kumar, Freelance Consultant- Livelihood and Entrepreneurship, Lucknow
2. Smita Premchander, Sampark, Bangalore
3. Girija Srinivasan, Consultant, Pune
4. A. Gurunathan, Dhan Foundation, Madurai
5. Toms K. Thomas, Development Practitioner, Trichur
6. Rama Reddy, Cooperative Development Foundation, Hyderabad
7. Narendran T., INFOS, Madurai
8. N. Srinivasan, Consultant, Pune (Response 1; Response 2)
9. Subhash Jindal, BASIX, Bhopal
10. Pon. Aananth, HDFC Ltd., Coimbatore
11. C. S. Reddy, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad (Response 1; Response 2)
12. Vidya Ramachandran, MYRADA, Bangalore
13. N. Jeyaseelan, microfinance Consultant, Srivilliputhur
14. Jai Pal Singh, Centre for MicroFinance, Jaipur
15. Tarun Debnath, SHG Promotional Forum, Kolkata

16. Prabhat Labh, CARE India, New Delhi
17. Kedaraswar Choudhury, Darabar Sahitya Sansad (DSS), Orissa

Further contributions are welcome!

Summary of Responses

SHGs have been operating in India for decades now and have been promoted by a wide variety of institutions. SHG federations and cooperatives have shown great success as a model for member-owned and member-managed development efforts. Participants discussed the institutional arrangements that have shown success in creating community ownership while also addressing critical issues for NGOs to consider while their programmatic support evolves.

Discussants pointed to the larger debate on whether SHG federations should provide financial, non-financial, or both type of services, which are now seen to add depth to institutional sustainability. Regarding financial intermediation, other members warned that a base of only 1,200 members may not be sufficient for a federation to offer financial services as the volumes are too small and risks high for their sustainability. Other constraints include the high cost of compliance with regulatory issues, retaining expert staff, etc.

On this issue of models for federations, members suggested adopting a two-layer federation model as opposed to a three layer one, as it keeps administrative costs down and helps each layer get a larger portion of the financial profits. The two layers can be: 1) SHGs; and 2) clusters/federations where SHGs can link directly with banks. The cluster associations/federations or the second layer, liaise with banks to get additional funds needed. At Sampark, such a two-layer model was successfully created by institutionalising as a cooperative, as it was felt that this is the most benign of all legal forms – being democratic, open, and empowering.

Participants highlighted the INFOS network whose member federations have become self sustainable in terms of meeting the costs of managing the federation and have also initiated new products to add value and quality to its services. Other successful federations have decided to employ 1-2 full time paid local employees and several volunteers to manage the federation. Participants pointed out that the income source of the federation should not depend on credit delivery alone

and should instead diversify, for example, by including a fee-based non-credit service.

Members shared that the findings of an empirical study which found that NGO-promoted SHG federations that carry out microfinance activities had relatively lower operating cost ratios vs. the stand alone NGO-operated model. Another empirical study showed that federations are able to undertake many activities independently and only require NGO support for leveraging loans and preparation of annual accounts.

Members shared several examples of successful models promoted by agencies promoting a three-tier system, along with several other examples of institutional arrangements that are owned and managed by the community, including Section 25 Companies and NBFCs.

In terms of legal format, in Andhra Pradesh, federations are registered as MACS either at the village or mandal level. In some cases, promoting NGOs have also promoted an Apex MACS, bringing together several Mandal MACS. Some examples include Sangathita Apex MACS promoted by MARI and Pragathi MACS promoted by Pragathi Seva Samiti. In both the cases, the promoting NGOs have gradually transitioned most or all of their microfinance work to the federation, while the NGO itself plays and aims to play only a promotional role. In Orissa, some SHG Federations at the block level are registered as a society while others are registered under the Orissa Self Help Cooperatives Act. In other states where no such enabling provision exists, usually federations are registered as a society, or a Mutual Benefit Trust.

While phasing out, members advised that NGOs should ensure that the capacities of the federation are fully developed in terms of governance, policies, structures, information technology, market access, business planning and financial viability. Discussants also highlighted the following issues that need to be carefully considered by the NGO while evolving its institutional role:

- The appropriate size of the Federation: While larger SHG Federations are more common, some people find that small federations (at the village level) are more effective and sustainable.
- Role of the SHG Federation: There is a difference of opinion on whether federations should provide financial intermediation. Members felt that SHG-Bank linkage is the better model though there are operational issues involved.

- Promotional support: It is felt that while the MFI model has demonstrated financial viability, State investment is still needed since SHGs provide 'social and financial infrastructure' for the poor.
- Human resources to manage these federations: There are varying opinions on whether SHG members can staff these federations due to the need for literacy and managerial skills.

Discussants also flagged several risks or challenges that one may face while phasing out support and creating community-owned federations, such as:

- Little scope for diversification of portfolio to manage risks when the number of SHGs is small (i.e. if most members borrow for agriculture/allied, a drought can largely affect the portfolio).
- Frauds—an external party needs to provide monitoring support to the Board of Directors.
- Enforcing a monitoring mechanism/financial discipline to avoid monopoly of funds by leaders.
- Frequently scanning members needs to ensure vibrancy of activities, strong attendance, etc.

Ultimately, members felt that federations will be as strong as its SHGs are pointing to studies of SHGs that reveal that only 30 percent of SHGs are of high quality. Participants also shared several recommendations for the query poser including exposure visits to successful independent federations, conducting a needs assessment study and focus on capacity building of community members.

Comparative Experiences

Rajasthan

NGO-Federation Partnership for Execution and Management of Programmes, Alwar District

(from Sanjeev Kumar, Freelance Consultant – Livelihoods and Entrepreneurship, Lucknow)

In addition to their microfinance operations, Ibtada has involved its federations in almost all development programmes and grants them authority to select beneficiaries and the required support, and administer the programme through cluster support agents. The federation also charges for group-bank linkage and takes care of quality parameters of group. As a result, the federations are financially viable and have greater ownership over the federation's operations.

Federations Adopting a Decentralised Power Structure

(from C. S. Reddy, APMAS, Hyderabad and Pon. Aananth, HDFC Ltd., Coimbatore)

The People's Education and Development Organisation (PEDO) developed federations in Durgapur with the support of Dhan Foundation. PEDO decentralised the federations' power structure and practices to promote financial transparency. It also forms sub-committees at the federation and cluster levels to address members' issues and build the capacities of members to become second-line leaders and to improve self-supervision. As a result, the federations are financially viable and self-governing.

Sakhi Samiti – A Self-Managed Federation

(from Sanjeev Kumar, Freelance Consultant – Livelihoods and Entrepreneurship, Lucknow)

Sakhi Samiti is a federation which PRADAN started promoting in 1997. In 2003, PRADAN altered its role and now Sakhi Samiti is managed by its SHG members with member-elected leaders. The federation also forms and trains groups, facilitates bank linkages and provides supplementary credit to SHGs from its "Sakhi Suvidha Fund," which operates independently and serves as a bridge fund to fill the delay in receiving loans through the bank linkage initiative.

Karnataka

Promoting Women's Owned Federations

(from Smita Premchander, Sampark, Bangalore)

Sampark has invested in building systems, accounting transparency and leadership to create federations owned by women. The NGO also trains women leaders who monitor and demand accountability from the federation staff. The cluster group pays the women leaders directly, with Sampark providing a reducing subsidy to the cluster over five years. The women now have their own savings of over Rs. 60 lakh and bank loans currently over Rs. 1.5 crore.

Tamil Nadu

Federations with Value Added Services

(from N. Jeyaseelan, Microfinance Consultant, Srivilliputhur)

The Centre for Social Reconstruction's SHG federation "Sangamam" started in 2002 as a trust and now has 266 member SHGs. It facilitates credit linkage as well as micro insurance linkage with insurers. The

federation leaders are receiving training to plan their programmes on the basis of the community needs and source funds from network/local agencies. Sangamam has generated a sense of community ownership as well as recognition and visibility by having its own building, vehicle and shop.

Non-Banking Finance Company as a Community-Owned Microfinance Model

(from C. S. Reddy, APMAS, Hyderabad)

Sorvodaya Nano Finance Limited (SNFL) is an NBFC led by the Mutual Benefit Trusts promoted by ASSEFA. The SHGs form into federations which are called SMBTs and have ownership of SNFL. It is a unique model as the federations have a share in the for-profit company as a part of SNFL and are also owned by investors. SNFL's work has proven that this innovative community-based, for-profit model is sustainable and scalable.

Andhra Pradesh

Government Supported Federation Model

(from C. S. Reddy, APMAS, Hyderabad and Sanjeev Kumar, Freelance Consultant – Livelihoods and Entrepreneurship, Lucknow)

The Indira Kranthi Patham (IKP) programme implemented by the Society for Elimination of Rural Poverty (SERP) has promoted more than 30,000 SHG federations that are involved in financial intermediation and livelihoods promotion. These federations are now involved in managing Bulk Milk Cooling Units (BMCUs), micro insurance products, marketing, ensuring food security and delivery of government services (like distribution of pensions).

Multiple States

(from Girija Srinivasan, Consultant, Pune)

Self-Sustaining Three-Tier Federations Engaged in Financial and Non-Financial Services

Kalanjiam Foundation promoted nearly 175 three-tier federations of 150-200 SHGs. They engage in both financial and non-financial activities. The Foundation was managed by professionals (who may be paid by the federation through SHG service fees). As a result of this approach, it was able to cover its costs in 4-5 years in rural areas and 6-7 years in tribal regions, due to lower loan absorption capacity. Also, mature federations are now borrowing for housing and enterprise promotion from HUDCO and SIDBI.

Independent Three-Tier Federations

GRAM has promoted 20 MACS at the mandal level that engage in financial intermediation. They've found that mandal level MACS with 100 to 200 groups are fragile financial intermediaries since they are prone to several risks. So, they instituted strong regulation mechanisms from the district federation, which has ensured that mandal level MACS perform well. District level federations also provide loan policy, internal audit, conflict resolution, MIS and monitoring support.

Related Resources

Recommended Documentation

(from C. S. Reddy, APMAS, Hyderabad)

SHG Federations in India

Book; APMAS; Hyderabad; 2007

Available at <http://www.apmas.org/pdf/SHGfinalbook.pdf>

APMAS has brought out a comprehensive publication on SHG federations which features 19 case studies of SHG federations across India that are financially viable and community-owned.

Mission Shakti: Mission to Create Social Revolution

Report; by Shri Pravakar Sahoo; Information and Public Relations Department, Bhubaneswar; January 2004

Available at <http://orissagov.nic.in/e-magazine/Orissareview/jan2004/englishpdf/chapter16.pdf>

Details the design of the Mission Shakti programme, promoted by the Orissa State Government working with over 96,000 SHGs throughout the state which has shown potential for replication.

Bagnan I Mahila Bikas Credit Cooperative Society Ltd.

(from Tarun Debnath, SHG Promotional Forum, Kolkata)

Presentation; Bagnan; West Bengal

Available at <http://www.solutionexchange-un.net.in/mf/cr/res30010801.ppt>

Presentation details Bagnan's institutional arrangement and activities promoting a community-owned microfinance model.

Supporting Women Federation Leaders

(from Smita Premchander, Sampark, Bangalore)

Study; by V. Prameela, M. Chdambaranathan, L. Jeyaseelan and Smita Premchander. Sampark;

Bangalore

Available at <http://www.solutionexchange-un.net.in/emp/e-discuss/res11070712.pdf>

Document presents Sampark's strategy in its livelihood intervention in Koppal working with women's clusters associations that are self-sustaining and self-managed.

Microfinance for Poverty Reduction: The Kalanjiam Way

(from A. Gurunathan, Dhan Foundation, Madurai)

Article; by Mr. K. Narendar and Mr. Vasimalai; Kalanjiam Foundation; Economic and Political Weekly; 31 March, 2007;

Available at <http://www.epw.org.in/epw/user/curResult.jsp>

Article discusses the community-owned microfinance model promoted by Kalanjiam Foundation.

Creating an Enabling Environment for Women to Empower Themselves: PRADAN's Microfinance and Livelihoods Programme

(from Sanjeev Kumar, Freelance Consultant - livelihoods and entrepreneurship, Lucknow)

Paper; by Mr. Md. Amjad Khan; PRADAN

Available at http://www.genfinance.info/Chennai/Case%20Studies/PRADAN_Chennai.pdf

Outlines PRADAN's strategy for promoting SHG federations; covers Sakhi Samiti, which is now managed by SHG members and independently run.

Indira Kranthi Patham (IKP) Society for Elimination of Rural Poverty (SERP) Progress Report for the Month of September 2007

(from Narendran T., INFOS, Madurai and Jai Pal Singh, Centre for microFinance, Jaipur)

Report; Society for Elimination of Rural Poverty (SERP) Available at http://www.rd.ap.gov.in/CRDAction%20plans/IKP_Sept_07.pdf

Describes the structure and activities of IKP which is a unique model of community-based microfinance promoted by the Government of Andhra Pradesh.

Supporting Sustainable Livelihoods: Lessons from Five Case Studies

(from Rama Reddy, Cooperative Development Foundation)

Study; IFAD and World Food Programme

Available at <http://www.wfp.org.in/ifadindia/SLSCS.pdf>

Study mentions the Cooperative Thrift and Credit System (CTCS) promoted by the Cooperative Development Foundation (CDF) as a community-owned self-help model.

Recommended Organisations and Programmes

BASIX, Hyderabad

(from Subhash Jindal)

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 040-30512500; Fax: 040-30512502; <http://www.basixindia.com/hrid.asp>

Under its Institutional Development Services (IDS) programme, BASIX promotes sustainable community-owned microfinance model by providing technical assistance and hand-holding support.

(from Narendran T., INFOS, Madurai)

Tamil Nadu Corporation for Women Development, Chennai

100, Anna Salai, Guindy, Chennai-600032, Tamil Nadu; Tel: 44-42085804-06; Fax: 44-22352751; tncdw@disnetdsl.net; <http://www.tamilnaduwomen.org/federations.htm>

Has been recognised nationally for its successful community-owned federation model; website shares guide to federation model and other resources.

Grameen Development Services (GDS), Uttar Pradesh

B-1/84, Sector B, Aliganj Lucknow-226024, Uttar Pradesh; info@gdsindia.org; gdscho@rediffmail.com; <http://www.gdsindia.org/strategy.htm>

The SHG federations promoted by GDS are owned, controlled and managed by its members themselves thus resulting in greater self-reliance of the members.

Indian Network of Federations of Microfinance Self-Help Groups (INFOS), Madurai

17, Vellai Pillaiyar Koil Street, S.S. Colony, Madurai-625016, Tamil Nadu; Tel: 452-2300032; infosindia@gmail.com; http://www.infosindia.in/member_federation.php

Network of 17 federations, founded by Dhan Foundation and Kalanjiam Foundation, its federations are involved in financial, civic and business intermediation.

(from C. S. Reddy, APMAS, Hyderabad)

Sorvodaya Nano Finance Limited (SNFL), Tamil Nadu

5-1-664,665,679, Surabhi Arcade, Bank Street, Troop Bazar, Koti, Hyderabad-500001, Andhra Pradesh; Tel: 040-30512500/30512501; Fax: 040-30512502; <http://www.basixindia.com/sarvodaya.asp>

An innovative community-owned model wherein SNFL is a registered NBFC promoted by a group of Mutual Benefit Trusts (promoted by ASSEFA) that have a share in the for-profit company.

Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad

Plot 20, Rao & Raju Colony, Road 2, Banjara Hills, Hyderabad-500034, Andhra Pradesh; Tel: 40-2354-7952/27, 23555864; Fax: 40-2354-7926; info@apmas.org; <http://apmas.org/FlagshipProgrammes.aspx>

Has extensive experience working with Community-owned Financial Institutions (COFIs) that are promoted by the SHGs themselves in a process-oriented approach.

Sanghamitra Rural Financial Services (SRFS), Bangalore

612, 1 C Main Road, Domlur Layout, Bangalore-560071, Karnataka; Tel: 80-25354457; Fax: 80-25353166 sanmitra@sancharnet.in; <http://www.sanghamithra.org/aboutus.htm>

A registered Section 25 company promoted by Myrada for lending to SHGs, has been successful in lending to SHGs that have not been able to receive bank loans.

Swayamshree Micro Credit Services (SMCS), Bhubaneswar

M-75, Samanta Vihar, Near NALCO Chhak, Bhubaneswar-751017, Orissa; Tel: 674-2302646; smcsbbsr@sancharnet.in; <http://www.cysd.org/Smcs.php>

The Centre for Youth and Social Development (CYSD) promoted SMCS is a Section 25 Company that lends to other SHGs.

Sreema Mahila Samiti, West Bengal

Dattapulia, Nadia, West Bengal-741504, Tel: 3473-265207; sreema@vsnl.net

Promotes SHG federations as community owned microfinance institutions.

People's Action for National Integration (PANI), Uttar Pradesh

Dhirendrapuri, Chachikpur, Faizabad-224141, Uttar Pradesh; Tel: 5278-325167; Fax: 5278-225175; panisansthan@rediffmail.com; <http://www.paniindia.org/sashakti.htm>

Community empowerment is one of PANI's focus areas along with promoting SHG federations as community owned microfinance institutions.

People's Education and Development Organisation (PEDO), Dungarpur

(from C. S. Reddy, APMAS, Hyderabad and Pon. Aananth, HDFC Ltd., Coimbatore)

Mada Village, Bicchiwara Block, Dungarpur District, Rajasthan-314001, Tel: 02964-261128; Fax: 02964-261129; http://www.barefootcollege.org/profiles/pedo/ORGANISATION_PROFILE_12-7-2006.pdf

PEDO has shown success in promoting SHG federations as viable COFIs.

Sampark, Bangalore

(from Smita Premchander)

No. 80, Shree Nilaya, Ground Floor, Second Main Road, First Block, Koramangala, Bangalore-560034, Karnataka; Tel: 080-25521268; sampark@sampark.org; http://www.sampark.org/main_projects.htm

Works extensively with women's groups and federations to create self-sustaining, community-owned institutions that empower their members.

(from Prabhat Labh, CARE India, New Delhi)

Modern Architects for Rural India (MARI), Warangal District, Andhra Pradesh

8-499, Balasamudram, Hanamkonda-506001, Warangal, Andhra Pradesh; Tel: 0870- 2571208, 2552928; marimail@rediffmail.com; mariwgl@gmail.com; <http://www.aea-india.org/mari.htm>

MARI has transitioned its microfinance work over to an apex MACS called Sangathita Apex MACS which brings together several Mandal MACS; MARI now plays a limited promotional role.

CARE – Credit and Savings for Household Enterprise (CASHE) Programme, New Delhi

27, Hauz Khas Village, New Delhi-110016, Tel: 011-26566060; <http://careindia.org/ManageProgrammeKey/VisitProgrammeDetail.aspx?ProgrammeKeyID=84>

Has conducted empirical analysis of the financial viability of various SHG federation models as well

as analysing the role of the promoting NGO in creating self-sustaining federations.

Kalanjiam Foundation, Madurai

(from Sanjeev Kumar, Freelance Consultant - Livelihoods and Entrepreneurship, Lucknow; Girija Srinivasan, Consultant, Pune; and Narendran T., INFOS, Madurai)

21, Pillaiyar Koil Street, S.S. Colony, Madurai-625016, Tamil Nadu; Tel: 452-2610794, 260-4256/8949; Fax: 452-2602247 kalanjiam@sancharnet.in; <http://www.dhan.org/kcbp/frames.html>

Kalanjiam Community Banking Programme (KCBP) promotes SHGs, clusters and federations as independent organisations owned and controlled by members.

Ibtada, Alwar

(from Sanjeev Kumar, Freelance Consultant - Livelihoods and Entrepreneurship, Lucknow and C. S. Reddy, APMAS, Hyderabad)

Plot No. 4, Scheme 8, Gandhinagar, Alwar, Rajasthan-301001, Tel: 0144-270-2452/3121; Fax: 0144-234-5509. info@ibtada.com; <http://www.ibtada.org/aboutus.asp>

Promotes three-tier systems (SHG, Cluster, Federation) and has involved the federations (apart from microfinance operations) in the management of its other development programmes.

Professional Assistance for Development Action (PRADAN), New Delhi

(from Sanjeev Kumar, Freelance Consultant - Livelihoods and Entrepreneurship, Lucknow)

3 Community Shopping Centre, Niti Bagh, New Delhi-110049, Tel: 011-26518619/4682/34061; headoffice@pradan.net; http://www.pradan.net/index.php?option=com_content&task=view&id=33&Itemid=19

Pioneer in promoting self-managed and viable SHG Federations; developed training materials and manuals on SHG formation, including Standard Operation Procedures for SHG promotion.

Cooperative Development Foundation, Hyderabad

(from Rama Reddy)

Ranga Reddy Women's College Campus, Santoshnagar Crossroads, Saidabad, Hyderabad-500059, Andhra Pradesh; Tel: 40-2433-1167; Fax: 40-2433-1167; info@sahavisaka.coop; <http://www.sahavikasa.coop/thrift.htm>

Promoted the Cooperative Thrift and Credit System (CTCS) and has found this to be a sustainable member-based MFI model.

Centre for Social Reconstruction (CSR), Tiruchendur

(from N. Jeyaseelan, Microfinance Consultant, Srivilliputhur)

85 B/3, Kalai Nagar New Street, Kottar Post, Nagercoil-629002, Tel: 04652 265155; Fax: 04652 265155; csrnagar_ngc@sancharnet.in; csrnagar@yahoo.co.in; <http://www.csrngo.org/activities/womenempowerment.html>

Has promoted the SHG Federation Sangamam which is community-owned and has proven viability; it provides both financial and non-financial services to its members.

Related Consolidated Replies

SHG Federations as Vehicles for Social Change, from C. S. Reddy, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad (Experiences). Microfinance Community and Gender Community
Issued 29 June, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-gen-25050702.pdf>

Shares experiences of SHG Federations performing multiple roles, including financial intermediation, capacity development and agents for addressing various social issues.



Consolidated Reply

Query: Market Place for Social Enterprise Capital–Advice

Compiled by Navin Anand, Resource Person and Nupur Bahl, Research Associate

Issue Date: 19 June, 2008

From Aparna Vishwanatham, EDA CapitalConnect Ltd., Gurgaon

Posted 2 May, 2008

EDA Rural Systems is a 25-year-old development consultancy based in Gurgaon. Among other things, we are engaged in microfinance training services and micro enterprise development across India and other parts of the world.

Over the last few years, we have observed that non-donor (commercial, socially responsible) funding interest in social enterprises has increased discernibly. However, there remains a significant asymmetry in information flow between enterprisers, investors and lenders, which is causing:

- Inefficient capital allocation: only a few enterprises have adequate access to suitable capital.
- Inefficient price discovery: with limited investment avenues and absence of an active secondary market, capital pricing is distorted.

With this as the underlying premise, we figured that efficiency of capital formation could be improved by creating a market place for social enterprise capital. Over the last quarter, we worked on an idea – Capital Connect – that aims to use the internet medium to bring together different interested institutional players, from all parts of the world.

The service will be in its beta form for three months – May to July 2008, during which we hope to test the concept and shape it better to meet the needs of social enterprises and investors of microfinance sector. Additions that are in the pipeline include relevant knowledge sharing (such as valuations, investor management), directory of select service providers (as relevant to capital raising) and market

trends information. The idea in its current form is given at www.edacapitalconnect.com.

Since we shall be testing the idea of providing the service for social enterprise capital, therefore we request the members of the Microfinance Community to share their experiences/views on the following:

- What methodologies would be effective for bringing together social projects in search of funds, and non-donor (commercial, socially responsible) funding interests?
- What methods could be used for reducing the transaction costs for both social project and the investor, in reaching a mutual benefit?
- Whether the products and processes on CapitalConnect adequately factor in strategic requirements and privacy needs of private market investors and issuers?
- Usefulness of the CapitalConnect idea, and any specific inputs to help us shape the service more effectively.

The suggestions of the members will help us to strengthen and modify the CapitalConnect idea, which will trigger more investments in microfinance sector and in turn scale up the sector as a whole.

Responses were received, with thanks, from

1. Sanjay Verma, PrimeNET Consulting Group, Lucknow
2. P. Sridharan Nair, ESAF Swasraya Producers Company Limited, Thrissur

3. Harish Chotani, Consultant, Gurgaon (Response 1; Response 2)
4. N. Jeyaseelan, Indian Bank, Madurai
5. K. Naveen Chand, Parishkaar Advisory Services Private Limited, Hyderabad
6. T. Keyzom Ngodup, Intellectap, Mumbai
7. K. K. Sharma, Women's Development Organisation, Dehradun
8. Brij Mohan, ACCESS Development Service, New Delhi
9. Teki Surayya, National Institute of Financial Management, Faridabad
10. Emmanuel V. Murray, Reserve Bank of India (RBI), Secunderabad
11. Manab Chakraborty, Mimo Finance, Dehradun
12. Kiran Kulkarni, Institute of Rural Credit and Entrepreneurship Development (IRCED), Sangli
13. Baladeb Sen, Microfinance Consultant, Chennai
14. Latha Bhaskar, Independent Consultant, Trivandrum
15. Mallika Kumar, Shriram College Commerce, University of Delhi, New Delhi
16. N. Srinivasan, Consultant, Pune
17. Santanu Sengupta, Change Innovators/Micro Money Management Enterprise (MMME), Kolkata

Further contributions are welcome!

Summary of Responses

Responding to the idea of creating a market place for social enterprise capital (called CapitalConnect) to increase the effectiveness of capital formation, members outlined potential benefits and transaction costs, looked at the participation of government institutions and banks, suggested methodologies for bringing different players together, and listed recommendations for assessing and rating organisations.

Discussants found the concept of “market place for social enterprise capital” quite innovative and enumerated a number of possible benefits from CapitalConnect, including:

- Function as a ‘Financial Solution Exchange,’ providing solution to the financial problems facing NGOs and social entrepreneurs.
- Serve as a platform providing temporary support to NGOs and social entrepreneurs, while waiting

to receive financing from the government or banks.

- Provide ‘risk-free’ assurance to investors and lenders and reduce the transaction costs for social entrepreneurs and investors.
- Function as a commercially oriented facilitation mechanism, possibly resulting in some degree of competition among banks.
- Offer ‘Distinctive Knowledge’ to help funding agencies and MFIs/NGOs satisfy their unique needs.
- Provide timely and affordable credit to social entrepreneurs and facilitate/guide NGOs on investment options.
- Promote ‘Fair Trade’ practices in the context of financial services.

Members recommended using capital for Corporate Social Responsibility (CSR) initiatives for social enterprises. This would reduce the cost of transactions for CSR and other social projects. Additionally, organisations like the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII) can play a vital role in convincing businesses of the advantages involved with investing in social projects.

Looking at ways to include banks and government institutions, respondents mentioned a network of NGOs in Tamil Nadu, and suggested CapitalConnect could utilise similar state and district level networks to enhance outreach. They also advised making everything available online, such as the membership application, payment of fees, and a list of funding appropriate organisations.

Another example shared was a similar platform promoted by a well-known development consulting company. Respondents also cited a successful government programme from Kerala called, ‘Kudumbashree.’ Through this initiative, social entrepreneurs, government officials, lenders and investors joined together to achieve a common goal, creating a win-win situation for all involved.

Discussing how to connect different players, members suggested various strategies, such as conducting “business plan competitions,” offering mentoring support to entrepreneurs, and organising workshops at the regional level to attract the attention of start-up or mid-sized MFIs, and buyer-sellers as well as one to one meets, for bringing all

players together for business transactions related to microfinance services and products. Additionally, respondents recommended holding national level awareness programmes for potential investors and lenders.

Discussants also looked at different ways to assess and rate organisations. One suggestion was to categorise organisations into four categories: 1) infancy (introductory); 2) emerging; 3) expanding; and 4) mature. Members emphasised that rating is necessary only for expanding and/or mature institutions, as large sums of capital are involved. Organisations still at the introductory stage and for those still emerging, conducting an 'organisational assessment' is more appropriate. Respondents pointed out that it is difficult for new entrants to raise capital, because investors and/or lenders ask for at least two to three years of experience. Doing an organisational assessment gives lenders and investors the option of relying on the performance of the parent organisation's balance sheet, while doing appraisal.

Additionally, members touched on other concerns related to the idea of CapitalConnect. They highlighted the importance of 'Value Delivery Chain' management and advised microfinance providers and livelihood support programmes work to master supply and value chains, so their investments are sustainable. An appropriate moratorium period for social entrepreneurial organisations by the lenders is necessary as well. Discussants also questioned whether the products and processes planned by CapitalConnect would adequately factor in strategic requirements and the privacy needs of private market investors and issuers. For example, MFIs facing a liquidity crisis due to natural disasters would require accessing to funding very quickly. Thus, respondents stressed the need to have Government participation to fill various gaps. Finally, members advised making the activities happening through CapitalConnect public to generate more interest.

Respondents concluded by outlining three challenges that need to be addressed for the concept of CapitalConnect to achieve its intended outcomes—creation of a rating strategy to make more 'consumers' eligible for financial assistance, promotion of 'microfinance and Fair Trade', and inclusion of Government and banks in the network.

Related Resources

Recommended Documentation

Managerial Aspects of Emerging Indian Financial System: An Assessment

(from Teki Surayya, National Institute of Financial Management, Faridabad)

Paper; by Teki Surayya; National Institute of Financial Management; Autonomous Institute under Ministry of Finance, Government of India; Faridabad
Available at <http://www.solutionexchange-un.net.in/mf/cr/res02050801.pdf>

Analyses the accessibility of capital market to social enterprise, noting it is very limited and is therefore a hindrance to development; also gives an overview of the Indian financial system

Sa-Dhan Quick Report 2007 – A Snapshot of Microfinance Institutions in India

(from Brij Mohan, ACCESS Development Service, New Delhi)

Report; Sa-Dhan; The association of Community Development Financial Institutions; 2007
Available at <http://www.sa-dhan.net/ResMaterials/QuickReport.pdf>

With contributions from over 145 MFIs across the country, report gives an overview of classification, outreach, efficiency, cost of credit, and funding structure of MFIs in India.

(from Nupur Bahl, Research Associate)

Capital Markets-Style Risk Assessment: Testing Static Pool Analysis on Microfinance

Case Study; by R. Ayton, S. L. Sarver and S. Raynes; Centre for the Development of Social Finance (CDSF)
Available at http://microfinancegateway.org/files/39898_file_StaticPool_CDSF_Mar07.pdf

Analyses the capacity of MFIs to attract capital market investors based on their performance using standard methods in capital markets.

Social Enterprise and MicroEnterprise: Understanding the Connection (FIELD Funder Guide Issue 11)

Guide; The Aspen Institute; MicroEnterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD); March 2008
Available at http://microfinancegateway.org/files/49443_file_FunderGuide11.pdf

Discusses social enterprise strategies from the United States, summarises lessons learnt, and

outlines the role of funders in supporting social enterprises.

Recommended Organisations and Programmes
Evangelical Social Action Forum (ESAF) Swaraya Producers Company Limited (ESPCL), Trichur

(from P. Sridharan Nair)

P. B. No. 12, Hephzibah Complex, Mannuthy, Trichur, Kerala-680651, Tel: 91-487-2371472/3813; Fax: 91-487-2371472; esaf@sancharnet.in; <http://www.esafindia.org/index.htm>

Micro Enterprise Development initiative provides a broad package of financial services (savings, credit and insurance) as well as other business development services to social enterprises.

(from Harish Chotani, Consultant, Gurgaon)

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, Maharashtra; Tel: 91-22-26539244; Fax: 91-22-2652-8141; nabmcid@vsnl.com; <http://www.nabard.org/>

Development Bank which facilitates credit flow for promotion and development of agriculture, small-scale industries, cottage industries, handicrafts and other rural crafts.

Small Industries Development Bank of India (SIDBI), Lucknow

SIDBI Tower, 15, Ashok Marg, Lucknow-226001, Uttar Pradesh; Tel: 91-522-2288547; <http://www.sidbi.in/>

Works to empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to economic growth, employment generation and regional development.

(from N. Jeyaseelan, Indian Bank, Madurai)

Palmyrah Workers Development Society (PWDS), Tamil Nadu

Crystal Street, Marthandam-629165, Kanyakumari District, Tamil Nadu; Tel: 91-4651-270241; palmarts@eth.net; <http://www.pwds.org/home.htm>

Offers support services to sustain community initiatives, working on five field projects with 11 support organisations in 24 districts in Tamil Nadu through network with 50 NGOs.

Srijan Microfinance Business Plan Competition 2008, Mumbai

512, Palm Spring, Beside D-Mart, Link Road, Malad

(West), Mumbai-400064, Maharashtra; Tel: 91-22-40359222; <http://srijan2008.com/srijan.html>; Contact Aparajita Agrawal; Associate Vice President; Tel: 22-32535292, 28801572; aparajita@intellectap.net

Awards entrepreneurs/organisations for their innovative plans to address the challenges faced by the microfinance sector with a vision to create an inclusive financial sector.

Intellectap, Mumbai (from T. Keyzom Ngodup)

512, Palm Spring, Beside D-Mart, Link Road, Malad (West), Mumbai-400064, Maharashtra;

Tel: 91-22-40359222; info@intellectap.net; <http://www.intellectap.net/>

Development consulting company which facilitates investment initiatives, incubates innovative business and creates knowledge focused on profitable and sustainable development.

(from N. Srinivasan, Consultant, Pune)

Federation of Indian Chamber of Commerce and Industry (FICCI), New Delhi

Federation House, Tansen Marg, New Delhi-110001, Tel: 91-11-23738760; Fax: 91-11-23721504; ficci@ficci.com; <http://www.ficci.com/>

Rallying point for free enterprises in India, it has a nationwide membership of over 1,500 corporations and over 500 Chambers of Commerce and business associations.

Confederation of Indian Industry (CII), New Delhi

The Mantosh Sondhi Centre, 23, Institutional Area, Lodi Road, New Delhi-110003, Tel: 91-11-246299947; Fax: 91-11-24626149; ciico@ciionline.org; <http://www.cii.in>

Works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

Recommended Communities and Network

Xigi.net – Discover the Capital Market that Invests in Good, San Francisco United States (from Nupur Bahl, Research Associate)

<http://www.xigi.net/category/about-xigi/>

Social network, tool provider, and online platform for tracking nature and amount of investment activity in the emerging market of social enterprises and connects emergent entrepreneurs.

Recommended Portals and Information Bases

India Development Gateway (IDG)

(from T. Keyzom Ngodup, Intellectap, Mumbai)

<http://indiadevelopmentgateway.com/app/idg/login.php>

Started by Intellectap, funded by the Development Gateway, connects social entrepreneurs and investors to overcome barriers limiting the flow of capital into social enterprise.

(from Nupur Bahl, Research Associate)

MicroCapital – On Microfinance and Microcredit Investment

<http://www.microcapital.org/>

Portal seeks to provide objective information oriented towards businesses about microfinance as an emerging investment class.

CGAP Technology Blog – Advancing Financial Services for the World's Poor, Washington D.C., United States

<http://technology.cgap.org/>

Blog run by CGAP Technology Programme, provides latest updates and observations on how different technology can increase access to finance.

Innovations in Emerging Markets, Washington D.C., United States

<http://ifcblog.ifc.org/>

Blog sponsored by International Finance Corporation, compiles knowledge and news about sustainable business innovations, and trends among firms and entrepreneurs operating in markets.

Recommended Tools and Technologies

Partnership Capacity Assessment Tool (PACT)

(from Harish Chotani, Consultant, Gurgaon)

Tool; Owned by CARE India/ACCESS Development Services, New Delhi

Available for downloading at <http://www.solutionexchange-un.net.in/mf/cr/res04120701.pdf>

Tool that assesses functioning of NGO-MFIs, governance, management, human resources, financial management, microfinance services, performance, etc. to facilitate partnerships.

Social Capital (SoCap) Index

(from Nupur Bahl, Research Associate)

Index; Owned by Xigi.net, San Francisco, USA

Available at <http://www.xigi.net/>

Social Capital Index (SCI) tracks investments in the social capital market, including social enterprise, fair trade, digital inclusion, selected clean tech and microfinance investments.

Related Consolidated Replies

Selection/Support of Small NGO MFI Start-ups, from N. Jeyaseelan, Microfinance Consultant, Madurai (Experiences). Microfinance Community.

Issued 27 December, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-04120701.pdf>

Discussed the assessment criteria for selection of NGOs for start-up assistance & the help required by MFIs for the preparation of business plans.

III.
Human Resource Development in
Microfinance Institutions



Consolidated Reply

Query: Incentive System and Retention Strategies for MFI Staff–Experiences

Compiled by Sumeeta Banerji, Resource Person and Anjum Khalidi, Research Associate

Issue Date: 5 September, 2007

From Sachin Kumar, MicroSave, Lucknow

Posted 21 August, 2007

Dear Members,

I work with MicroSave which aims to strengthen the capacity of financial service providers to deliver market-led financial solutions. We provide consulting, training and capacity building services to MFIs and other formal financial institutions involved in promotion of microfinance services.

The microfinance sector in India is growing by leaps and bounds. Looking at immense market potential for microfinance services, many new MFIs, banks, and industry houses are entering the sector. Following this, one can easily foresee the large demand for qualified field staff and professionals. Hence, there arise the challenges in retaining and attracting competent and experienced staff. In such cases, developing a good incentive structure and other staff retention strategies will play a crucial role.

MicroSave publishes a series of Briefing Notes covering key issues facing the microfinance sector (http://www.microsave.org/Briefing_notes.asp?ID=19). We are currently working on a Briefing Note on Incentive Structures and would like to understand the practice of Indian MFIs in designing incentive structures for their staff. This is with an intention to study, analyse and document the best practices followed by MFIs in the development and successful implementation of a staff incentive system.

In this context, I request community members to share their experiences and examples on the following issues/aspects:

- What are the qualitative and quantitative parameters taken into consideration by MFIs to incentivise (in cash and kind) the field staff, head office and other support staff?
- What are the issues/challenges faced by MFIs in arriving at objective measurement parameters for staff performance?
- What are the other staff retention strategies adopted in the Indian microfinance sector or experiences from the international arena?

Your valuable inputs would help us put together a Briefing Note on Incentive Structures which will

Responses were received, with thanks, from

1. Vikas Kumar Singh, Fidelity Investments, Bangalore
2. N. Srinivasan, Rural Finance Consultant, Pune
3. Toms K. Thomas, Social Performance Management Unit, Evangelical Social Action Forum (ESAF), Pathinmathitta
4. N. Jeyaseelan, Microfinance Consultant, Madurai
5. Pon. Aananth, HDFC Ltd, Erode
6. Parth Sarthi Mishra, SKS Microfinance, Lucknow
7. Baladeb Sen, Microfinance Consultant, Chennai (Response 1; Response 2)
8. Manjusha Raulkar, SKS Microfinance, Hyderabad

Further contributions are welcome!

be shared with members of the Solution Exchange Microfinance Community after completion.

Summary of Responses

Responding to the query on building incentive structures and retention strategies for MFI staff, members provided a wealth of suggestions on suitable incentive policies for MFIs along with experiences with non-financial strategies intended to attract and retain professional staff.

Members emphasised that staff attraction and retention have recently become challenges, partly due to tough working conditions and rapid growth in the sector, which has greatly increased the demand for skilled staff. The problem is confounded by the scarcity of institutions that are able to produce candidates fit for the industry's human resource (HR) requirements.

Respondents felt incentive structures need to be different depending on the functions that are discharge by the staff, since their tasks and monitoring methods/frequency would be different. Participants suggested giving field staff incentives on a monthly basis, using parameters such as the number of groups formed in the month and number of loans disbursed. The head office staff (including area manager, unit manager, support staff, etc.) could receive incentives annually (around 15-30% of the total cost to company), based on the organisation's annual goals (i.e. number of branches opened or number of loan clients).

Discussing qualitative and quantitative parameters, members listed various factors MFIs could consider adopting when putting in place an incentive structure. MFIs often use quantitative parameters, since they are simple to calculate (e.g. Rs. 250 per one lakh SHG loan outstanding with 100 percent repayment paid to field staff). Instead, discussants suggested using systems based on quantitative parameters like client acquisition/maintenance, repayments, disbursements/outstanding and qualitative ones like proper documentation, and adherence to the policies of the organisation or a combination of both measures.

Participants noted that except for a few, most MFI incentives systems are based on members' quantitative measures like enrolment and repayment. Qualitative and social indicators such as quality of outreach (i.e. professional practices) and clients (i.e. strong enterprises, strong repayments), credit use pattern,

human development of clients (change in attitudes – economic and social) and social performance of credit are generally not taken into account.

Another issue discussed was that young MFIs are often unable to deal with high attrition rates, while the more professional and established ones, mainly NBFCs are working to retain qualified field staff by putting in place sound HR policies for recruitment, pay packages, incentive schemes, training programmes, and promotions. Therefore, members emphasised the value of introducing non-cash incentives as part of the MFI's retention strategy such as recognition for exemplary performance, providing incentives-in-kind, or awards such as 'Best Quarter/Month Performer.' Other factors that help retain and motivate staff include opportunities to attend external training programmes, establishing a fair working environment and offering a visible career development path (such as training lower level staff to move higher up in the organisational structure). Respondents also shared an example of a MFI in Tamil Nadu providing food and accommodation to their branch staff free or subsidised cost. By offering this type of unique compensation package, MFIs can help retain professional field staff by allowing them to save on living costs.

When deciding on what incentive structure to put in place, members suggested senior management align the system according to the organisational structure (i.e. reporting matrix) and goals for the year. They elaborated that if market expansion is the objective, then incentives need to drive this behaviour and hence be given a higher weightage in the overall structure and if on the other hand quality is the focus then incentives need to be developed accordingly. However, the structure must have some flexibility in order to make mid-term corrections to drive any other type of behaviour. Moreover, members felt there cannot be a 'one-size-fits-all' approach for putting in place incentive structures.

Respondents also highlighted several issues and challenges MFIs face when trying to objectively measure performance. They noted the productivity of field staff varies in different areas and therefore performance. Another issue noted was that offering incentives could unintentionally exclude clients in more remote or marginalised areas, because staff would be encouraged to increase their numbers by enlisting clients from higher socio-economic status. To address this possible problem,

incentives could be put in place to encourage field staff to reach remote and marginalised communities.

Members pointed out that performance measures are different for commercially-driven MFIs and MFIs with a social mandate. Similarly, members mentioned the larger challenge of including social performance measures since institutional funding often depends on rating of financial indicators. Other challenges discussed related to the rapid expansion of MFIs, allowing little time for recruitment and training. They added that non-profit MFIs often cannot offer competitive salaries in comparison to the private sector, which have the option of giving their employees a share of the profits and stock option plans.

Finally, members recommended doing an assessment of the HR needs for the microfinance sector to provide a diagnosis, using data from an appropriate sample of MFIs as well as feedback from industry leaders. The study would need to classify MFIs according to their growth stages and outline appropriate HR policies and strategies, keeping in view the industry parameters and future growth trends.

Respondents broadly agreed the Indian microfinance sector must invest in developing its human resources to sustain the sector's momentum and align incentive structures with the MFIs' core business goals, which is an evolving process as the sector matures.

Comparative Experiences

Tamil Nadu

Low Turnover Rate Due to Incentive Measures

(from N. Jeyaseelan, Microfinance Consultant, Madurai)

IBSUM had in place several incentives for field staff. These included the opportunity to be trained by external organisations, being given priority in promotion to next higher cadre, and the choice of the next posting location. Offering these type of incentives has proved to be a successful approach, as demonstrated by the low rate of staff turnover.

Unique MFI Compensation Packages

(from Pon. Aananth, HDFC LTD, Erode)

Mahasemam Trust provides free food and accommodation to its branch staff (branch manager, field officer/loan officers and accountant). It also offers the staff of some MFIs, food and accommodation at a subsidised cost. By offering this to junior staff

(with roughly +2 qualification), who earn Rs. 4-6,000/month, the Trust enables their junior staff to save between Rs. 4-5,000/month, allowing them to "earn" substantially more than they otherwise could, given they only have a +2 qualification.

International

Azerbaijan

(from Anjum Khalidi, Research Associate)

Weighted Staff Incentive Scheme (SIS)

The MFI, CredAgro uses a weighted SIS. Using this, they make payments quarterly based on four indicators: 1) Portfolio At Risk (PAR); 2) average portfolio (the credit officer's medium-to-long-term productivity); 3) number of loans; and 4) financial self-sustainability of the branch. By utilising these calculations, while the sum of the weights is 100 percent, each indicator is assigned different values according to its priority therefore driving certain behaviour aligned with the organisation's goals.

South Africa

Team-Based Monetary Staff Incentive Scheme

The MFI, Capitec, encourages its employees to work as a team to "beat the budget" every quarter by working to make a profit. For every one percent over the budget the branch earns, all branch staff receive the equivalent of USD 15, with a certain extra amount for the Regional Manager. However, incentives are only given if the region as a whole also makes a certain level of profit in the quarter. While incentivising individual staff behaviour, this structure would also encourage productivity of the larger branch as well.

Related Resources

Recommended Documentation

(from Toms K. Thomas, Social Performance Management Unit (ESAF), Pathinmathitta)

Assessing and Managing Social Performance in Microfinance

Report; International Fund for Agricultural Development (IFAD) and Anton Simanowitz; 2006

Available at <http://www.ifad.org/ruralfinance/pub/performance.pdf>

Details new approaches to social performance assessment of MFIs; also discusses various tools and methods which can help design incentives to improve MFIs' social impact.

Beyond Good Intentions – Measuring the Social Performance of Microfinance Institutions

Study; by Syed Hashemi and Samer Badawi and Laura Foose; Consultative Group to Assist the Poor (CGAP) and Alternative Credit Technologies, LLC (ACT); The Microcredit Summit Campaign (MCS); 2006
Available at http://www.microcreditsummit.org/papers/Workshops/29_HashemiFooseBadawi.pdf

Highlights the Social Performance Assessment (SPA) tool, which can be used to help MFIs align their incentive structures with their organisational social performance goals.

(from Anjum Khalidi, Research Associate)

Principles for Designing Staff Incentive Schemes

Report; by Mr. M. Holtmann; MicroSave; 2002
Available at http://microfinancegateway.org/files/22624_ST_Incentive_Design.pdf

Summarises important principles for designing monetary staff incentive schemes of MFIs, also provides an overview of the basic forms of incentive schemes for staff members.

Staff Incentive Schemes in Practice: Findings from a Global Survey of Microfinance Institutions

Paper; by Mr. Andrew McKim and Mr. Matthew Hughart; Micro Finance Network (MFN) and The Consultative Group to Assist the Poor (CGAP); Washington, DC; September 2005

Available at
http://microfinancegateway.org/files/29906_file_Staff_Incentive_Schemes_in_Practice.pdf

Presents findings of a large-scale research project on the utilisation and design of staff incentive schemes among MFIs around the world.

Strategies for Staff Retention

Paper; by Mr. M. Cook and T. Jagers; ShoreCap Exchange (SCE); November 2005

Available at http://microfinancegateway.org/files/29922_file_Strategies_for_Staff_Retention.pdf

Discusses the importance of successful staff retention in MFIs and suggests a series of strategies for achieving successful staff retention results.

Recruiting, Training, and Retaining Excellent Staff

Study; by Mr. S. Gibson.; The Microcredit Summit Campaign (MCS); Washington, DC; 2000

Available at <http://www.microcreditsummit.org/newsletter/best9.htm>

Looks at the link between staff retention and

sustainable microfinance programmes, and explores strategies to motivate staff for maximum productivity.

Finding Equilibrium as MFIs Grow and Evolve: Balancing Financial and Social Objectives

Annual Conference Summary Report; Micro Finance Network (MFN); London; September 18-20, 2006

Available at <http://www.mfnetwork.org/mfn-annual-conference.html>

Report on discussions by MFIs on staff retention issues, including study findings shared by the Staff Incentives Working Group on using incentives to balance social and financial performance.

Human Resources Constraints

Developed by Centre for microFinance (CmF); Chennai

Available at <http://ifmr.ac.in/cmfmfi-strategy-unit/mfi-consulting/>

Discusses several human resources constraints facing the microfinance sector today including recruitment, staff incentives and training.

Recommended Organisations and Programmes

Mahasemam Trust, Madurai

(from Pon. Aananth, HDFC LTD, Erode)

1,2, Lake Area, Mellur Road, Uthangudi Post, near Meenakshi Mission Hospital and Research Centre, Madurai-625107, Tamil Nadu; Tel: 452-4210601; Fax: 452-2586353; edsemam@yahoo.co.in; <http://www.mahasemam.org/background.html>

Provides food and accommodation to branch staff free or at subsidised cost; this unique compensation package can be used as part of an MFIs, strategy to retain field staff.

SKS Microfinance, Hyderabad

(from Parth Sarthi Mishra and Manjusha Raulkar)

8-2-6084/1/1, Karama Enclave, near Gaffar Khan Colony Rd. # 10 Banjara Hills, Hyderabad-500034, Andhra Pradesh; Tel: 40-23305119/25; info@sksindia.com; <http://www.sksindia.com/methodology.htm>

MFI in the process of wide expansion, with vast experience in incentive structures and successful retention strategies.

Recommended Portals and Information Bases

Social Performance Resource Centre, Microfinance Gateway

(from Toms K. Thomas, Social Performance Management Unit (ESAF), Pathinmathitta)

http://www.microfinancegateway.org/resource_centres/socialperformance/

Provides resources on achieving social performance in addition to economic performance; also has information on how to align staff incentives and retention strategies with organisational goals.

(from Anjum Khalidi, Research Associate)

Staff Incentives Working Group, Micro Finance Network (MFN)

<http://www.mfnetwork.org/mfn-working-groups.html>

Established by MicroSave Africa, CGAP and MFN, the website provides information on the working group's publications and information on its other activities.

THINKmicrofinance.org, Wharton School, University of Pennsylvania, USA

<http://www.thinkmicrofinance.org/2006/10/08/staff-incentive-schemes/>

Lesson on October 8 provides several resources and studies on incentive structures for MFIs, types of schemes and case studies.

Staff Development, Rural Finance Learning Centre

Provides several documents, tools and other

resources covering HR management for growing MFIs, staff incentives and other HR issues.

Recommended Tools and Technologies

Designing and Implementing Staff Incentive Schemes

(from Anjum Khalidi, Research Associate)

Design Toolkit; Owned by MicroSave Africa, Kenya, August 2005

Covers basic principles of incentive structures, instructions on determining staff members to target, financial estimation, conducting technical design and standard other design elements.

Recommended Training Courses

Leveraging Human Potential: Human Resource Development (HRD) for NGOs, Institute of Rural Management Anand (IRMA), Anand

(from Sumeeta Banerji, Resource Person)

September 17, 2007 to September 21, 2007.

Information available at <http://www.irma.ac.in/programmes/lhphrd.pdf>

For details contact: Programmes Officer; Tel: 91-2692-260391, 9825367827; bcp@irma.ac.in

Designed to provide inputs on the concept of HRD and its various tools and techniques; useful for HR managers of cooperatives, NGOs, and MFIs

***List of Consolidated Replies
October 2006 to October 2008***



Poverty Microfinance Community



Coverage of India's MFIs and SBLP, Sarah Djari

(from SDC, New Delhi and Adrian Marti, CMF, Chennai (Advice))

Issued 15 November, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-15110601-public.pdf>

Provides advice on ways to enhance the value of a mapping exercise on microfinance coverage in India and suggests ways to expand outreach to underserved regions.

Impact Assessment of Microfinance Initiatives,

(from Smita Premchander, SAMPARK, Bangalore (Experiences))

Issued 30 November, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-25110601-public.pdf>

Captures experiences on the diverse impacts of microfinance and shares tools, studies and methodologies on impact assessment of microfinance.

Microfinance Models for Muslim Community in India,

(from Abdul Rahman Ilyas, ICRISAT, Hyderabad (Advice) Issued 21 December, 2006)

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-21120601-public.pdf>

Experiences and suggestions on devising specific models and delivering interest free microfinance products for Muslim community in India.

Diversified Credit Products to SHG Members under SBL, Rohit Raina, Access Development Services, Udaipur (Experiences)

Issued 30 December, 2006

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-30120601-public.pdf>

Suggests ways to make SBLP more client-responsive through provision of diversified credit products including case studies of MFIs, banks and NGOs.

Partnering with Financial Institutions for Microfinance Services

(from Manab Chakraborty, Mimo Finance, Dehradun (Referrals))

Issued 12 January, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-22120601-public.pdf>

Provides list of Financial Institutions and contact persons as sources of debt and equity capital for MFIs.

Critical Areas and Strategies to Scale-Up Microfinance Investments

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai (Advice; Experiences) Issued 22 January, 2007)

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-10010701-public.pdf>

Identifies broader challenges and obstacles facing the microfinance sector, critical areas requiring investments and possible strategies to scale-up microfinance.

Delivery of Business Development Services by MFIs,

(from Vikash Kumar, Grameen Koota, Bangalore (Experiences))

Issued 5 February, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-08010701-public.pdf>

Shares delivery models and approaches for MFIs to provide Business Development Services (BDS) along with possible challenges in operationalising BDS.

Insurance and HIV

(from Imtiaz Ahmed, Institute for Financial Management and Research, Chennai and Tara Manchin Hangzo, American India Foundation, New Delhi (Experiences; Examples))

Issued 18 February, 2007. Cross-posted with AIDS Community

Available at <http://www.solutionexchange-un.net.in/aids/cr-public/cr-se-aids-mf-04010701-public.pdf>

Highlights the challenges of health insurance for PLHIV and describes the experiences and examples of limited insurance available in various countries.

Micro Enterprise Development for Mature Microfinance Clients, from N. Jeyaseelan, Indian Bank, Madurai (Experiences)

Issued 22 February, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-29010701-public.pdf>

Shares challenges and strategies to graduate microfinance clients from micro-credit to micro-entrepreneurial activities through experiences including using sub-sector approach.

Financial Service Delivery Channels

(from Manab Chakraborty, Mimo Finance, Dehradun (Experiences))

Issued 20 March, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-12020701-public.pdf>

Shares pros and cons of the franchisee model for delivery of microfinance services and other alternate cost effective models such as partnership, business correspondents (BC) model.

Human Development through Microfinance

(from Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur (Experiences))

Issued 22 March, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-28020701-public.pdf>

Shares alternate institutional mechanisms and experiences for provision of microfinance to address human development needs of the poor, particularly education and health.

Expansion of Microfinance to Northeast India,

(from Suvarna Gandham, Maanveeya Holdings and Investment (P) Ltd, Hyderabad (Experiences))

Issued 28 March, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-13030701-public.pdf>

Shares details on microfinance operations in the north east, experiences of diverse institutional models and the potential and approach to expand microfinance services in the region.

Microfinance Needs and Institutional Livelihood Models for Fisher Folk

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai (Experiences) Issued 6 April, 2007. Cross-posted with Work and Employment Community)

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-2003070-public.pdf>

Provides advice on financial needs of fisher folk, other technical and institutional support they require, risk coping strategies and institutional models to deliver microfinance.

Delivery of Micro Insurance Services

(from Ajaya Mohapatra, We The People, New Delhi (Experiences))

Issued 25 April, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-03040701-public.pdf>

Provides case studies and models for distribution channels of micro insurance and key lessons for efficient implementation of micro insurance schemes.

Models for Operational Efficiency of MFIs

(from Abubucker, Accenture, Bangalore (Experiences))

Issued 9 May, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-17040701-public.pdf>

Shares various institutional models for MFIs and discusses the issue of sustainability, efficient Loan Officer to group ratio as well as ways of using technology to reduce costs.

Alternative Micro Insurance Products and Delivery Mechanisms

(from Ramesh S. Arunachalam, Microfinance Consulting Group, Chennai (Experiences))

Issued 30 May, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-09050701-public.pdf>

Provides information on various delivery mechanisms and best practices in providing micro insurance; includes case studies on innovative products and technology solutions.

Capability Assessment of Micro Insurance Providers,

(from T.V. Ramesh, ALEgION Insurance Services Ltd, Chennai (Advice))

Issued 30 May, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-17050701-public.pdf>

Presents criteria to indicate the ability of an organisation to deliver micro insurance cost-

effectively; also shares challenges and advice to MFIs providing micro insurance.

Impact of Bt Cotton

(from Debdatta Sengupta, International Food Policy Research Institute, Washington DC (Experiences))

Issued 17 May, 2007. Cross-posted with Food and Nutrition Security Community

Available at <http://www.solutionexchange-un.net.in/food/cr-public/cr-se-food-mf27040701-public.pdf>

Clarifies scientific/practical issues related to cultivation of Bt cotton, debates on its impacts and linkage with farmers' suicides and indebtedness, suggests ways for implementation of GM crops.

Over-borrowing from Multiple MFIs

(from Arabinda Sinha, Sarala, Kolkata (Advice))

Issued 29 June, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-11060701-public.pdf>

Discusses the challenge of credit information asymmetry and the feasibility of sharing borrower information among lending agencies, and technology as means to control over-borrowing.

SHG Federations as Vehicles for Social Change (Revised)

(from C. S. Reddy, Andhra Pradesh Mahila Abhivruddhi Society (APMAS), Hyderabad (Experiences) Issued 29 June, 2007. Cross-posted with Gender Community)

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-gen-25050702-public.pdf>

Shares experiences of SHG federations performing multiple roles, including financial intermediation, capacity development and agents for addressing various social issues.

Extending Remittance Services to MFI Clients,

(from Manab Chakraborty, Mimo Finance, Dehradun (Experiences))

Issued 30 June, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-19060701-public.pdf>

Provides information on the legal framework governing MFIs delivering remittance services; highlights the experience of MFIs as well as technology that can better facilitate remittances.

Identifying Technology Service Needs for the Microfinance Sector

(from Dhruv Joshi, Ekgaon Technologies Pvt. Ltd., New Delhi (Advice))

Issued 12 July 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-25060701-public.pdf>

Discusses the technology needs of MFIs, current solutions that are being used in the microfinance sector, and challenges faced by MFIs who have had experience in implementing technology.

Designing Credit Risk Assessment Tools to Reach the Poor

(from Rohit Raina, ICICI Bank Ltd., Mumbai (Experiences; Examples))

Issued 25 July, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-06070701-public.pdf>

Shares experiences of risk assessment and examples of tools which formal financial institutions can use to reach poor populations with microfinance services and discusses appropriate client profile.

Model for Urban Microfinance

(from Varda Pandey, National Institute of Urban Affairs, New Delhi (Advice))

Issued 2 August, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-16070701-public.pdf>

Covers government interventions and lending rates in microfinance; shares experiences in savings mobilisation and raising capital within the legal framework; highlights individual lending.

Resources on Forming SHGs and Streamlining Procedures

(from Pinky Pradhan, United Nations Office on Drugs and Crime (UNODC), New Delhi (Examples: Referrals))

Issued 9 August, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-20070701-public.pdf>

Provides resources and manuals on SHG formation, grading/assessment procedures, mobilising thrift and savings as well as recommended experts and courses for SHG promoters.

Disaster Risk Insurance for Vulnerable Communities,

(from Thiagu Ranganathan, Centre for Insurance and Risk Management, Institute for Financial Management Research, Chennai (Experiences; Examples))

Issued 20 August, 2007. Cross-posted with Disaster Management Community

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-drm-25070701-public.pdf>

Shares experiences and challenges in implementing risk transfer mechanisms and provides several examples of disaster insurance in India and abroad.

Providing Savings Services by NGO-MFIs and NBFCs,

(from Vikash Kumar, Grameen Koota, Bangalore (Advice; Experiences))

Issued 28 August, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-07080701-public.pdf>

Discusses the BC model and other mechanisms by which NGOs and MFIs can provide savings services to their members; shares experiences and various technologies used.

Incentive System and Retention Strategies for MFI Staff

(from Sachin Kumar, MicroSave, Lucknow (Experiences))

Issued 5 September, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-21080701-public.pdf>

Provides quantitative and qualitative indicators to be considered for incentive structures; discusses challenges and issues in performance measurement and retaining staff.

Revolving Fund for Household WatSan Facilities

(from Kulwant Singh, UN-HABITAT, New Delhi (Experiences; Referrals))

Issued 27 September, 2007. Cross-posted with Water Community

Available at <http://www.solutionexchange-un.net.in/environment/cr-public/cr-se-wes-mf-28080701-public.pdf>

Experiences and examples of models from different states in financing small household level water and sanitation facilities through revolving funds, along with design element suggestions.

Collecting Evidence of the Impact of Microfinance

(from Smita Premchander, Sampark, Bangalore (Experiences))

Issued 28 September, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-06090701-public.pdf>

Provides a wealth of impact assessment reports; members also shared experiences carrying out impact assessments and views on the importance of studying the effects of microfinance.

Social Performance Strategies for MFIs

(Toms K. Thomas, Evangelical Social Action Forum (ESAF), Trichur (Experiences))

Issued 30 October, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-21090701-public.pdf>

Shares a wealth of knowledge and resources on measuring social performance, the role of donors, and the challenge of achieving sustainability while maintaining one's social mandate.

Selecting/Support of Small NGO-MFI Start-ups

(from N. Jeyaseelan, Microfinance Consultant, Madurai (Experiences))

Issued 27 December, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-04120701-public.pdf>

Gives recommendations and experiences regarding the selection and support needed to assist small start-up NGO-MFIs; discusses the need for financial support along with capacity building.

Developing a Portfolio Risk Hedging Product

(from Sarthak Gaurav, Centre for Insurance and Risk Management (CIRM), Chennai (Advice))

Issued 28 December, 2007

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-31080701-public.pdf>

Provides insights on potential threats to an MFI's portfolio; factors that drive delinquency/default, and lists incentives for MFIs to subscribe to a portfolio insurance scheme.

Micro enterprise Development as an Extension of Microfinance Programmes

(from Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad (Experiences; Examples))

Issued 28 December, 2007. Cross-posted with the Work and Employment Community

Available at <http://www.solutionexchange-un.net.in/emp/cr-public/cr-se-emp-mf-18100701-public.pdf>

Shares examples of micro enterprise programmes initiated by MFIs/NGOs that have become successful enterprises and discusses the challenges MFIs face in micro enterprise development.

Creation of a Sustainable Community-based Microfinance Model

(from Sachin Kumar, CARE India, Gujarat (Experiences))

Issued 4 March, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-15010801-public.pdf>

Discusses institutional arrangements for creating community-owned, viable SHG federations; also highlights larger challenges and issues for consideration while phasing out NGO support.

Urban Microfinance and Employment

(from Santanu Sengupta, Micro Money Management Enterprise (MMME) – Change Innovators, Kolkata (Experiences) Issued 26 March, 2008. Cross-posted with the Work and Employment Community)

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-emp-06020801-public.pdf>

Discusses the various urban-specific vulnerabilities that the urban poor face; activities for sustainable urban employment and learnings to consider for urban microfinance interventions.

Funding Landscape for Start-Up MFIs

(from Sachin Kumar, MicroSave, Lucknow (Referrals))

Issued 27 March, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-26020801-public.pdf>

Discussed bottlenecks faced by start-up MFIs; provides information on products and services offered by various financiers to start-up and nascent MFIs.

Developing Indicators to Assess Client Size

(from Shubhankar Sengupta, Arohan, Kolkata (Experiences))

Issued 1 May, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-01040801-public.pdf>

Discussed methods and, indicators and models used for assessing client size; provides tools to

new and growing MFIs for identifying the target groups, assessing the client's size.

Microfinance Services through Mobile Phone Banking in Remote Areas

(from Manab Chakraborty, Mimo Finance, Dehradun (Experiences; Advice))

Issued 2 July, 2008. Cross-posted with ICT for Development Community

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-ictd-23040801-public.pdf>

Experiences of mobile phone banking in different countries as well as initiatives in India, and discussed need and relevance of mobile phone banking focusing on financial inclusion.

Market Place for Social Enterprise Capital

(from Aparna Vishwanatham, EDA CapitalConnect Ltd., Gurgaon (Advice))

Issued 19 June, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-02060801-public.pdf>

Discussed idea of providing the service for social enterprise capital through creating a capital connect platform.

Microfinance and Livelihood Support Projects in Disaster Affected Localities

(from Toms K. Thomas, Evangelical Social Action Forum (ESAF), Mannuthy, Trichur (Experiences; Examples))

Issued 27 June, 2008. Cross-posted with Disaster Management Community

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-drm-050608-public.pdf>

Discussed requirements of microfinance services in disaster affected areas and innovative experiments and experiences related to microfinance products and service in these areas.

State of the Sector Report for Microfinance

(from N. Srinivasan, Lead Author of the 'State of the Sector Report – 2008', Pune (Experiences; Examples) Issued 2 July, 2008)

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-09050801-public.pdf>

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

Microfinance Services for Mountain and Other Remote Areas

(from N. Srinivasan, Lead Author of the 'State of the Sector Report 2008', Pune (Experiences; Advice) Issued 2 July, 2008)

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-12060801-public.pdf>

Discussed constraints and need's gaps related to microfinance services in mountain and remote areas and innovative experiments and experiences related to microfinance products and services.

Micro-Health Insurance for Disadvantaged Groups

(from Marc Socquet, International Labour Organization (ILO), New Delhi (Discussion))

Issued 2 July, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-30100701-pubic.pdf>

Captures different aspects of the value chain of micro-health insurance; role of service providers, products and services and success or failure factors of the schemes.

Mobile Payment Guidelines of RBI

(from Harish Chotani, Consultant, Gurgaon (Advice; Experiences))

Issued 24 July, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-27060801-public.pdf>

Captures experiences and advice on the draft of RBI's Mobile Payment Guidelines so as to facilitate the process of modification of the guidelines initiated by RBI.

Microfinance through Urban Local Bodies for Disaster Preparedness and Poverty Alleviation

(from Awadhesh Pathak, City Managers' Association Gujarat, Ahmedabad (Experiences; Advice))

Issued 26 August, 2008. Cross-posted with Disaster Management Community

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-drm-18070801-public.pdf>

Shares experiences of microfinance for disaster preparedness and poverty alleviation through ULBs; also enumerates possibilities and challenges for linkages with financial institutions.

Client-Focused Microfinance for Livelihoods

(from Tara Nair, Friends of Women's World Banking (FWWB), Ahmedabad (Discussion))

Issued 10 September, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-18120701.pdf>

Shares experiences and views on integration of microfinance and livelihood interventions in context of conducting a study on client focused microfinance for livelihoods.

Appropriate Legal Structure for Health Mutuals Issued

(from Kumar Shailabh, Uplift India Association, Pune (Advice; Experiences))

Issued 27 September, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-11080801-public.pdf>

Shares models of Community owned Mutuals, appropriate legal structure and reviews of partner agent model of Health Mutuals.

Housing Microfinance for Poor

(from G. Milroy Paul, Habitat for Humanity India, Chennai (Experiences; Examples))

Issued 29 September, 2008

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-28080801-public.pdf>

Shares experiences, issues, challenges faced and possible value delivery chains for housing microfinance.

Microfinance for Micro Dairy Enterprises

(from Kuldeep Sharma, Entrepreneurship and Technology Development Centre, Noida (Experiences; Referrals))

Issued 22 October, 2008. Cross-posted with Food and Nutrition Security Community

Available at <http://www.solutionexchange-un.net.in/mf/cr-public/cr-se-mf-food-15090801-public.pdf>

Experiences on requirements of microfinance for small dairy enterprises, appropriate organisational set up and schemes of financial/promotional institutions.



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Active Communities of Practice and their Facilitating Agencies

	Decentralization	– UNDP		Work & Employment	– ILO; UNDP
	Water	– UNICEF; UNDP		Microfinance	– UNDP, ILO
	Food & Nutrition Security	– FAO		ICT for Development	– UNESCO; UNDP
	Gender	– UNIFEM; UNICEF		Disaster Management	– UNDP
	Maternal & Child Health	– WHO; UNFPA; UNICEF		Climate Change	– UNDP
	AIDS	– UNAIDS		Karnataka Community	– UNICEF
	Education	– UNESCO; UNICEF			

These Communities of Practice (CoP) are people who share similar concerns and interests, through electronic e-mail groups and face-to-face interactions, with the common objective of problem-solving. The initiative has been in operation since 2005, and has grown dramatically over its three years of existence. At present it has thirteen Communities of Practice, with a membership base of nearly 14,000 members and 24,000 subscriptions (a member may be subscribed to multiple Communities).

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Facilitating Agencies
for Microfinance
Community of Practice



Many thanks to all who contributed to this synthesis!

If you have further information on any of the topics in the synthesis, please send it to Solution Exchange for the Microfinance Community in India at se-mf@solutionexchange-un.net.in

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