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CONTENTS

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DEAR READER,

Indian has a dynamic and active microfinance sector. Over the years it has witnessed phenomenal growth in terms of loans outstanding, client outreach, product and service diversification and geographical spread. Microfinance Institutions (MFIs) too have emerged as strong players in supplementing the role of formal financial institutions in providing microfinance services to the poor. The Indian MFI sector is among the fastest growing and most efficient in the world. MFIs have realised that this market segment offers good return on investment as the percentage of defaults is minimum.

MFIs can play a vital role in skill developments. The financial services provided by them have enabled thousands of poor people to graduate from subsistence-livelihoods to become micro-entrepreneurs. Microfinance programmes are currently being promoted in a way so that they address both poverty alleviation and women's empowerment. This helps them to overcome exploitation and create confidence for economic self reliance for those rural women who are almost invisible in the social strata. The microfinance network and rise of social entrepreneurship amongst the poor women have undoubtedly led to better food security and self-reliance.

Micro-credit, another important component of microfinance, involves offering very small loans to poor clients without any collateral and often without any written contract. Recently, insurers have been working on combo product in microinsurance. These products will provide value-added and beneficial offerings for the rural consumer. The largest life insurance company, Life Insurance Corporation of India (LIC) has taken a lead in that direction. Nearly three years after the launch of its first microinsurance product, '*Jeevan Madhur*', LIC is all set to launch its second microinsurance product, 'Jeevan Mangal' in near future. This product is likely to be integrated as LIC's much awaited combo microinsurance offering by January.

In the times to come, microfinance will continue to develop into an important delivery mechanism to reach out to the poor and achieving financial inclusion. ■

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SMALL LENDERS BEAT BIG CRISIS

In spite of the challenges, MFIs are now coping with new market realities

PRITI PATNAIK, NEW YORK

While big banks blazed with toxic assets in major economies, tiny lenders in poor villages in the developing world should have crumbled under pressure. Surprisingly, however, they survived.

This hardy business is called microfinance, where specialised lenders borrow money from mainstream financiers like banks to on lend to poor entrepreneurs without credit histories. The lenders, called microfinance institutions (MFIs), serve up small loans, sometimes $100 or lower, to borrowers who are excluded from the formal banking system. Regarded as untouchables by commercial banks, these high-risk, high return borrowers have impeccable repayment rates averaging 99%. This is a far cry from subprime borrowers who borrowed too much without the means to pay back.

Financing the needs of this "bottom billion" eager to step out of the poverty trap caught the imagination of commercial investors over the last decade. While about 100 million borrowers crowd the sector, 80% of whom are served by only 20% of the MFIs, this is only a tenth of the total number of potential borrowers.

From near zero 30 years ago, microfinance lending hit nearly $14 billion in 2007. The funders range from large public and private sector donors to commercial investors.

The funding comes in many varieties including debt, equity and loan guarantees. This growth is not surprising given that large MFIs have been doubling their portfolios annually, with few delinquencies or defaults.

Leading up to the financial crash in 2008, funding glutted the market as too much capital chased too few top tier MFIs. Both domestic and international capital markets vied to lend to MFIs, who played them off against each other for lowest priced and largest loans. But as soon as the crisis hit investors were quick to turn off the tap.

But how did this model of lending stand up to the darkest phase of finance? In general, microfinance institutions are well capitalised with core lending practices in place. Providing access to new loans for these borrowers is the lifeblood of this system. Loans are meant to be used more for investment than for consumption. Interest rates charged by MFIs can be more than 30% since there is a cost of providing financial services to underbanked populations. Before the crisis, the interest rates were pushed down to oddly low levels, when MFIs enjoyed more liberal terms with financiers. But the crisis has changed all that. MFIs are now coping with new market realities.

For some of the borrowers, the candle is burning on both ends. Their small businesses have been hit by the downturn, bringing repayments under pressure even as borrowing costs are increasing.

"Some borrowers are already hit by a marginal decrease in the turnover of their small businesses especially where the country's macro economy is highly integrated into the global macro economy," Andrea Esposito, managing director, microfinance at Standard & Poor's (S&P's) said.

While some of the big MFIs have decided against passing on increased costs of capital to borrowers, it may be a difficult promise to keep going forward. Under pressure to be efficient, tighter underwriting and stringent collection practices are contributing to higher transaction costs. From 800 basis points over LIBOR (London Interbank Overnight Rate), the cost of borrowing for these organisations has gone up to over 12-15% over LIBOR, according to a report by Consultative Group to Assist the Poor (CGAP).

"The difference in the cost of capital is eating up much of the buffer that MFIs had. Shrinking margins may force lenders to increase the rates especially where there is strong competition," Esposito said. Although short term interest rates jumped in September 2008, it did not affect MFIs in the same way as other institutions which depend on short term working capital. These organisations have longer term loans up to two years.

Hardening interest rates and a fall in remittances are putting repayments under pressure. One of the standard first glance indicators for tracking portfolio quality on microfinance institutions is the Portfolio at Risk (PaR) over 30 days. Anecdotal information suggests that this is up from 1.5% to 3% in many MFIs, Joan Trant, executive director, International Association of Microfinance Investors (IAMFI) said. In some cases this has surpassed 5%, she said. It is best practice to maintain this indicator under 5%.

Irregular repayments may jeopardisze access to new loans. "If those borrowers who are prompt with repayments are not provided with fresh credit, there may be possibility of increase in delinquency. Any sustained slowdown in supply of funds usually leads to galloping delinquency." Collin Timms, director, Micron and chairman of Bangalore-based Guardian Bank said. Micron works in the area of providing credit information about borrowers with no credit histories or income statements.

Another source of traditional MFI funding has been hit – grants by foundations. Some of the big foundations have survived a 30% loss in their endowments since they had invested their monies in equities.

Currency fluctuations during the crisis have hit MFIs dependant on foreign currency loans. MFIs in the emerging economies of Eastern Europe and Central Asia that depended on foreign funds were hit by unanticipated local currency depreciation. Burdened with dollar liabilities, relatively credit worthy MFIs are now finding it difficult to get loans, Brian Cox, Executive Director, MFX Solutions, a firm that helps MFIs hedge against exchange rate fluctuations said.

In their short life spans, these MFIs only saw their local currencies appreciating. "Though these organisations were advised to decrease their dependence on international lending, they refused to take precautions," Cox said. As a result there has been a fairly big demand for a shift to local currency albeit more expensive now. Greater attention is now being paid to foreign exchange risks, he said. Interest rates for MFIs on loans in US dollars and Euros increased between 50 to 250 basis points (bps) in 2008 and most investors expect them to go up by an additional 100 bps in 2009 according to an investor survey by USAID.

But these short term challenges for MFIs have not dissuaded investors. Over the last few years, the industry had reached a substantive level and farther in the maturity curve allowing the MFIs to take on commercially priced debt and not solely rely on grant funding and below-market rate debt, Christina Conrad, Senior Investment Officer at Calvert Social Investment Foundation said.

Private Equity investors look at hard growth numbers and these organisations threw up incredible growth figures, year after year. "What drives investors is the double bottom line approach. The returns are comparable with the risk and returns of mainstream assets, but in addition to it – there are social benefits," Brad Swanson, managing partner at Developing World Markets (DWM), a socially oriented investment bank. At the height of the crisis, it closed two funds, equity and a debt fund in the last six months. One of the investors of the equity fund is US pension fund Teachers Insurance and Annuity Association, College Retirement Equities Fund (TIACREF). Swanson said, "TIACREF made it clear to us that they expect serious returns as they would from a mainstream asset."

In the play of economies of scale, returns are huge for the relatively small amounts that venture capitalists invest. Even at the height of the crisis, SKS Microfinance, one of the largest MFIs in India sealed a $75 million deal in November 2008 with Sandstone, a US hedge fund. Now as a part of its borrowing plan for next fiscal, SKS will be the first non-banking financial company (NBFC) in India to issue commercial paper to raise short-term funds.

Difficult market conditions have ensured that MFIs use new strategies to cut borrowing costs. Last month, another Indian MFI, Equitas securitised its assets. In securitisation cash flow producing financial assets are pooled, packaged and then sold to investors. This pool is then sold to a bank at a discounted rate, to become a part of the bank's books. This frees up the MFI's balance sheet to lend more. Although securitisation is a bad word post the sub-prime crisis, investors are interested in such paper given the 99% recovery rates for MFI loans. Banks and institutional investors have endorsed the Equitas deal since it is backed by good asset quality and a strong underlying cash flow.

Besides, rating agencies like the Standard and Poor's have rated structured investments that make this type of paper more transparent for investors. "MFIs are now coming forward to have themselves rated given that investors are extremely selective about the kind of paper they want to invest in," Gary Kochubka, senior director, emerging markets, structured finance at S&P's said. Investors have found it a daunting task to zero in on credible investments, therefore getting rated helps. Typical investors are pension funds and insurers who have a long term view of the sector, unlike hedge funds who find MFI instruments too illiquid and inconsistent with their short term goals.

Also bullish on the sector are Microfinance Investment Vehicles (MIVs), that raise money from investors by issuing shares or bonds, and in turn extend debt, equity, or guarantees to MFIs. Back in 2004, a Geneva-based MIV, Blue Orchard, was the first one to float a Collateral Debt Obligation (CDO) to provide long-term funding for MFIs and attract commercial investors at competitive rates. A CDO is a structured asset-backed security (ABS) whose value and payments are derived from a portfolio of fixed-income underlying assets.

If the sector is hit hard in the future leading borrowers to default, the underlying assets of the CDO could sour, reversing the calculation of some of the MIVs. "The cost of raising capital is a function of the economics of pricing. If the underlying collateral is too expensive, then it will not work," Kochubka S&P who rates structured deals related to MFIs said. But this mode of financing is only expected to gather momentum as conditions come back to normalcy. If one is really optimistic, there could be a pick up in activity in the third quarter '09, he said. Securitisation deals have become a rarity in the aftermath of the subprime crisis. With 40 structured finance deals in January 2007, there have been less than 5 in the past year, Trant at IAMFI said.

It was hitherto believed that microfinance was counter-cyclical to the larger macroeconomic story. But in a crisis as deep as this one, microfinance has proved to be of no exception. Fund managers were of the view, that there was a relative lack of correlation of microfinance with other asset classes and could therefore dampen volatility. "It turns out it does have a weak correlation with other asset classes as it does with the larger macroeconomic crisis," Swanson of Developing World Markets said.

The crisis has put the sunrise sector in a new light. Inevitably, risk management issues are beginning to take center stage. Some MFIS have taken pro-active action to reign in growth, tighten credit policies, in the face of rising defaults, decreasing portfolio growth and potential liquidity issues. It is seen as an opportunity for the sector to let off some of the steam and consolidate on core lending practices. After all, some of the Asian MFIs were overleveraged to up to 18-19 times on the back of easily available debt!

"After tremendous growth and expansion, the time period we are now in should allow MFIs to focus on gaining efficiencies, putting into place consumer protection measures and overall solidify the sector in a stronger position," Conrad, at Calvert Foundation said.

In the debate of whether rich investors can make money off poor people, Nobel laureate Mohammad Yunus, who pioneered the Grameen Bank in Bangladesh 25 years ago, seems to have won this round. Yunus who won the prize for peace and not economics has long decried investor hunger for the sector driven more by profits than social commitment. While there may be not enough government and socially-oriented capital to meet eventual worldwide demand for microfinance, commercialization of microfinance is inevitable. After all, chasing the bottom billion can be exciting. ■

INSURERS WORKING ON COMBO PRODUCT IN MICROINSURANCE

These products will provide value-added and beneficial offerings for the rural consumer

KUMUD DAS

If microfinance is the way to reach the rural folk and bring them into the fold of the banking then why should the insurers lag behind in the noble task of providing insurance cover to them. Keeping it in view, the insurers, from both life as well as non-life, are currently working on introduction of combo product in the field. It comes in the wake of the recent circular by the insurance regulator, Insurance Regulatory and Development Authority (IRDA), which talks of such product with the structure such as life term coming from life insurance company whereas the health cover to be taken care of by the non-life companies. The benefit being that the cost of distribution comes down substantially which will further give comprehensive benefit to the customers as well as the insurers.

Though both life and non-life insurance companies are having the health insurance products, there lies a basic difference in that. While the non-life companies fully reimburse the cost incurred in case of the disease being covered by them, a life insurance company can only pay a lumpsum amount in that case. Again, unlike life insurance companies. The non-life insurance companies can cover for a short period, may be one year or so, only. In spite of it, life insurance company can pay the lumpsum amount until the maturity period of the policy which is quite long. Another grey area being that premium receipts will comprise two components for life as well as non-life insurance companies separately. The question arises what will be the mode of payment of the premium to both the companies in the case of a combo product. One thing is clear that the life insurance company will act as a lead in this case, but even then the question of sharing of the premia receipts remains unanswered.

These facts apart, the largest life insurance company, Life Insurance Corporation of India (LIC) has taken a lead in that direction. Nearly three years after the launch of its first microinsurance (MI) product, 'Jeevan Madhur', LIC is all set to launch its second microinsurance product, 'Jeevan Mangal' in near future. This product is likely to be integrated as LIC's much awaited combo microinsurance offering by January. However, the problem being faced by the LIC is the existing norm by IRDA which allows a life insurer to have tie-up with only one non-life insurance as far as sale of products was concerned. The LIC has taken up the issue before IRDA urging the latter to allow it to have such tie-ups with more than one non-life insurance company.

Unlike 'Jeevan Madhur' which was launched by LIC in September, 2006 and which is an endowment assurance plan, 'Jeevan Mangal' is term insurance plan with refund of premium facility, says Saroj Dikhale, executive director and head, microinsurance wing of the LIC. Later, we plan to integrate the proposed product to a combo product in partnership with another non-life insurance company, said Dikhale, without disclosing the name of the non-life insurer, LIC was looking at tying up with for the forthcoming product. The proposed combo product will have 9-10 riders which will include cattle, hut, personal accident, failed well coverage, livestock, cradle and crop insurance, said she. Minimum sum assured for 'Jeevan Mangal' is Rs 10,000, while the maximum cover will be upto Rs 50,000. Similarly, the life risk cover for the proposed combo product will be Rs 50,000. Though there is no accident benefit under the cover, the policyholders can buy it as a rider for a small price of Re 1 per thousand. Minimum sum assured for the forthcoming product is Rs 24.35 per Rs 1000. The term will be maturing in 15-20 years. The new product allows all modes as in 'Jeeevan Madhur'. Apart from it, the product will also be available as a single premium product.

Now, some interesting facts about 'Jeevan Madhur'. Sum assured/risk cover protection of Rs 3261.02 crore has been provided by LIC under 25 lakh policies to the needy 'Jeevan Madhur' policyholders since inception till 31 March, 2009.

Expanding its wings

Period	Micro insurance products	Product name	IRDA code	Launch date
2008-09	Met Life India	Met Vishwas	117N042V01	2-Jun-08
2007-08	SBI Life Insurance Co. Ltd.	SBI Life Grameen Shakti	111N038V01	6-Sep-07
2007-08	SBI Life Insurance Co. Ltd.	SBI Life Grameen Super Suraksha	111N039V01	6-Sep-07
2006-07	TATA AIG Life Insurance Co. Ltd.	Ayushman Yojana	110N042V01	30-May-06
2006-07	TATA AIG Life Insurance Co. Ltd.	Navkalyan Yojana	110N043V01	30-May-06
2006-07	TATA AIG Life Insurance Co. Ltd.	Sampoorn Bima Yojana	110N044V01	2-Jun-06
2008-09	TATA AIG Life Insurance Co. Ltd.	Tata AIG Sumangal Bima Yojana	110N061V01	3-Jun-08
2006-07	Sahara India Life Insurance Co. Ltd.	Sahara Sahayog (Micro Endowment Insurance without profit plan)	127N010V01	21-Apr-2006
2007-08	Shriram Life Insurance Co. Ltd.	Shri Sahay	128N011V01	7-Feb-07
2007-08	Shriram Life Insurance Co. Ltd.	Sri Sahay (AP)	128N012V01	24-Apr-07
2009-10	Bharti AXA Life Insurance Co. Ltd.	Bharti AXA Life Bachat Bima	130N024V01	29-Jun-09
2008-09	IDBI Fortis Life Insurance Co. Ltd.	IDBI Fortis Group Microsurance Plan	135N004V01	5-Nov-08
2008-09	DLF Pramerica Life Insurance Co. Ltd	DLF Pramerica Sarv Suraksha	140N007V01	16-Mar-09
2008-09	Star Union Dai-ichi Life Insurance Co	SUD Life Paraspar Suraksha Plan	142N009V01	17-Mar-09

By way of death claims, LIC has already distributed about Rs 3 crore to the families of the deceased MI policyholders under 2,164 claims in last 2.5 years. Also, it has provided a source of revenue earning by way of agency commission to 6647 MI agents and their 42,802 specified persons selling the policy. Majority of the specified persons are females who now have a source of income. Interestingly, the MI business coverage has been more on female lives (53%) than on male lives (47%). Women are now increasingly coming under the net of risk-protection through our MI business, said Dikhale.

Taking a cue from LIC, private sector insurers are also working hard to come up with such product. Aviva being one of them which is keen to look at any opportunities that can benefit the customers , especially those at the bottom of the pyramid. Monica Agrawal, director, corporate initiatives, Aviva India, says that combo products are definitely a value added and beneficial offering for the rural consumer. Though IRDA has allowed launching of combo products in microinsurance, we are awaiting some clarity related to areas like claim settlement, premium collection etc.

A major challenge in any composite product initiative will be the integration of backend policy administration systems of the life and non-life companies. Since low ticket sizes are characteristic of the microinsurance industry such a product would have to rely heavily on a strong technology back-end to enable it to be a viable proposition both for the customer and the insurers. Talking about the potential of microinsurance, Agrawal says that there is enormous potential and demand for long term financial planning products among the rural and urban poor consumers. Here the challenge would be in the ability of insurers to support daily premium collections while at the same time offering the rural consumer flexibility and transparency. We are exploring technologies and processes to make this happen, says she. Sharing his views with Agrawal, Amish Tripathi, national head, product development and management, IDBI Fortis Life Insurance says that this is a good initiative from IRDA which will help customers get benefit of both life as well as health covers in one combination. However, a life insurance is already in a position to offer such kind of product through the health and life products they have, whereas non-life companies can't do it without the help of life insurance companies.

Yet another insurer which has welcomed the move is Tata AIG Life Insurance company which is already having four products in the microinsurance segment and which enjoys the customer base of 1.5 lakh in that segment. Vijay Athreye, vice president, rural, social and microinsurance, Tata AIG Life Insurance, says that though currently we are busy exploring tying up with a non-life insurance company for distribution of health product to our customers in rural areas. Still, he added that his company will definitely look at launching a combo product in microinsurance sometime in future. There are four advantages of the combo product, says Athreye. First, cost to customer will come down, income of channel will go up, the commission value as charged by the agent as percentage to premium will also go up and above all, cost of channel will come down, says Athreye. If the product is designed with similar tenure, multiple risks can be covered, says he. Apart from it, cost of office can also be shared between the life and the non-life insurance companies in this way, says he. ■

[INTERVIEW]

'WE CONTINUE TO SEE THE SECTOR GROW AS MORE PLAYERS ENTER THE MARKET WITH BETTER TECHNOLOGY'

Moumita Sen Sarma heads microfinance and sustainable development at the ABN AMRO Bank, India. She set up the ABN AMRO India's Microfinance business in 2003 and the ABN AMRO Foundation as well as Sustainable Development Unit in 2006. Under her leadership, ABN AMRO India has been awarded the 2007 IFC and Financial Times Sustainable Banking Award in the Emerging Markets category. In an interview to ***Kumud Das*** *of FE, she shares her views:*

How are you trying to develop microfinance sector?

ABN AMRO sculpted a three pronged strategy to provide easy access to a range of financial services to 'those who do not have enough'. At the core of the ABN AMRO approach lies microcredit wherein the bank has aligned its own financial strength with the distribution network of MFIs to reach the underserved. Currently the bank through its 29 MFI partner reaches microcredit to 20 states with portfolio growing to Rs 2.9 billion from the modest beginning in 2003 when it was the first foreign bank to make an incursion into the microfinance sphere.

Secondly, the bank in a bid to address the skew of microcredit distribution towards Southern India, pioneered a technical assistance programme. This mentors nascent MFIs to make them creditworthy especially for underserved areas where there is a dearth of capable institutions.

Thirdly, the bank went beyond the conventional paradigm of banking to engage and focus on livelihood support with training in skill development and income generation with a special focus on ecologically vulnerable areas committing substantial resources to 13 projects currently underway in various corners of India.

The bank also has a lot of initiatives that go beyond extension of credit and towards the development of the sector viz the The Microfinance Process Excellence awards was also an innovative idea that emerged in 2004 – a time when the microfinance industry in the country stood poised for scale-up, but was not adequately conversant with the Systems and processes needed to support growth. The mission of MPEA is to sensitise the microfinance sector to the importance of standardisation and optimisation of business processes, and over the years it has gone further to establish industry benchmarks and elevate the standards of Process Management across MFIs in India. The MPEA in itself is regarded as one of the most transparent and thorough award processes in the country.

In 2008, ABN and Royal Bank of Scotland (RBS) in partnership with PlaNet Finance India, hosted the third MPEA. Each year the awards process is enhanced to keep pace with the dynamic microfinance market. At the core of the six to twelve month long process is a training, designed to enable smaller MFIs to acquire and upgrade their process mapping and management skills. For greater access, these trainings were offered in five regional locations and more than 30 MFIs participated in the five workshops, conducted by MicroSave, across the country. Participation at the awards has also increased and in 2008, 67 MFIs entered the competition of which 35 were small institutions who appreciate the MPEA as a platform that accords them credibility with mainstream financial institutions. These MFIs were screened by an independent jury comprising of eminent fund providers, academicians, consultants and process mapping experts. As a final stage of compliance each selected MFI was visited by an employee of ABN/RBS to validate the existence of the process and the capability of the MFI to implement it.

A more intense engagement ensues at the technical assistance programmes wherein MFIs are groomed over 12-18 months on modules of governance, systems, procedures and processes to make them scaleable operations.

Impact Assessment Surveys

To understand the impact of microfinance on alleviating poverty, the Bank commissioned an impact assessment survey in 2004 with borrowers in UP. The results showed that four years of access to Microfinance, helped 58% of the households experience a significant reduction in poverty, while 41% came out of poverty. Access to microfinance has also led to empowerment of the women borrowers – greater say in household decision making.

The second impact assessment study has just been concluded in the latter half of 2008 and while final analysis is still underway, initial results indicate that every family has added at least one new source of income, thanks to the loans. 52% reported an increase in income and 46% said it was because they could expand their source of income. Every family owns some form of livestock. And it was very heartening to note that 97% have Identity Documents and 34% have accounts with Banks now.

Loan Portfolio Audits

This exercise initiated by us for our MFI clients aim at a critical review of their systems and procedures, operational efficiencies and the cost of delivery. The exercise intends to enable the management and stakeholders of MFIs identify areas for improvement which will positively impact the portfolio quality and have been well received by all our MFI clients.

Microfinance Founder's Forum

The early half of 2008 saw the equity fuelled growth of some Indian MFIs went ambitiously national leading to unethical competition often stifling the growth of the smaller MFIs. As both large and small MFIs are clients of the banks and play an important role in the sector, we had the responsibility to douse what was rapidly turning into an inflammable conflict. In September 2008 ABN/RBS took the initiative of convening a Microfinance Founders Forum, at which some of the country's top MFI leaders met to discuss and pave the way for healthy competition, cooperation and better management practices. The forum agreed on a code of conduct and the need to focus on social reporting and re-focus on un/underserved regions. This action led to the birth of two very important initiatives, Self Regulatory Organisation and Credit Bureau.

Microfinance Informal Group

ABN-RBS also organised a small multi-stakeholder group – the Microfinance Informal Group – comprising like minded persons including senior bankers from some of the main banks of the country, funding agencies, technical service providers and equity investors, each of whom was concerned with issues such as multiple lending, competition, lack of product diversification, credit squeeze and possible effects on microfinance alongwith the entry of large commercial players into microfinance. The group, largely representing the supply side of microfinance, agreed to work together to seek board positions in MFIs via a common representative, view substantial foreign investments as risky, emphasise upon transparency, and encourage better social disclosures to help retain the priority sector status of microfinance as well as ensure sustainability.

ABN-RBS has already taken up that challenge to bring together multiple stakeholders to inspire joint ownership and accountability amongst to forge a path towards a balanced future that promotes opportunities for the vulnerable section across the country to create wealth and access financial services at a reasonable cost.

What kind of interest rate are you charging from them?
Around 12% is being charges from MFIs.

How much loans have you disbursed to them so far?
Please clarify – area you asking for the cumulative figure or disbursal figure of 2008-2009.

What are the segments in microfinance you are looking to finance?
No specific segments.

What was your achievement on the front in 2008-09?
In the face of a meltdown, the microfinance business remained robust and continued to attract positive attention from stakeholders while registering heartening growth. ABN AMRO Also constituted the Founders Forum in 2008 as well as the Microfinance Informal Group - both of which are initiatives well received by the sector

Going forward, how do you see the new fiscal?
We continue to see the sector grow as more players enter the market with better technology and more innovative credit delivery methods taking the benefits to the poor.

What are the problems as being faced by the sector?
The rapid scale up in certain areas is giving rise to unethical competition and large sections of the poor still remain outside the ambit of the reach of microcredit. Thus issues of transparency in workings of MFIs, adoption of self imposed model code of conduct and improving outreach in underserved areas would remain challenges that the sector will grapple with in 2009. ■

[COLUMN]

MICROFINANCING IN INDIA – NEEDS TECHNOLOGY SHIFT

To overcome the shortcomings a technology-based model using straight through processing system is evolved by Sukkaki Foundation

K.S. BAJWA

India is a country of villages even today but on account of lack of infrastructure resulting in lack of opportunities for the population migration of youth continues unabated. The urban centres are getting flooded with masses. To stop this migration we have to provide opportunities to under privileged people of rural areas. Microfinance is a major tool available to create opportunities and help people to raise their quality of life.

Although this fact is well established and understood the approach taken to achieve is yet to prove itself and hence despite huge money being made available for these projects success is nowhere visible. The business correspondent and business facilitator model envisioned by RBI and commercial banks needs major revamp.

The major issues in making this model a failure is:

- After opening the account the beneficiaries are expected to deposit their surplus cash by handing it over to the agent as and when he visits the customer. As there is no certainty of visit of the agent, the customer doesn't find it convenient to keep waiting for the opportunity to deposit or withdraw cash. In fact the normal human expectation is that he should get cash as per his need which may be at any point of time during the day. Similarly he would like to deposit the surplus cash as soon as it is available with him without waiting for anyone to collect it from him. The agent appointed for this work has to cover five to six villages every day hence he visits only as per his schedule, which may not be to the linking of the customer.
- The agent or the business correspondent is expected to carry cash for disbursement to the account holders physically. The law and order situation in rural areas is the major hurdle in giving comfort to these agents to move to remote villages, hence the cash withdrawal by the customers is discouraged. Thus the agent doesn't not have sufficient work and he gets discouraged to continue the work and after some time the whole system comes to a grinding halt.
- There is strong need to understand the skill level of rural populace to create opportunities for skill enhancement through training and appropriate backward linkages for marketing of products, which he would be producing with enhanced knowledge. The present model focuses on opening of deposit accounts. Thus customers do not get encouraged to use the system.
- The government is giving grants/stipend/allowances to many categories of people like old age persons, meritorious students, handicapped, individuals, widows etc. as also to farmers in case of crop failure from time to time. These doles are being distributed through existing physical channels of bureaucracy but it is common knowledge that they do not reach the right beneficiary because of imperfect distribution channels and human involvement at various levels. Present model also involves agents to make cash available to beneficiaries and hence technological enablement is not made use of.

To overcome these shortcomings a technology based model using straight through processing system is evolved by Sukkaki Foundation and the model addresses most of these short comings.

Our model is Self Sustaining on Perpetual Basis (SSPB). The model is based on technology and human intervention is minimal. Straight through processing is extensively used for cutting down delays and work on near to real-time basis.

The model is explained below:

- **Opening of Accounts** – Account opening camps are held at different locations to open accounts of all eligible persons in the area. This is done by following guidelines for opening No Frill/Normal Accounts and taking care of Know Your Customer (KYC) verification. KYC verification is to be done by the bank staff and required documentary evidence is put on record. The database is maintained at

Financial Inclusion Server which is a Core Banking system enabled hardware & it is interfaced with the sponsored banks core banking system. Every customer is provided with a Photo ID cum ATM card which is usable for accessing his account through ATM as well as Hand Held Device.

- **Creation of Micro Banking Centre** – A small Micro Banking Centre is established for a population of approximately 5,000 persons. This Micro Banking Centre will have one Facilitator cum Micro Banker, one ATM and a Hand Held Device, which has capability of providing Value Added Services to the customers. The hand held device has two SIM cards for security reasons one card is used for accessing customer's account at the financial inclusion server and the other is used for value added services like Railway Reservation, Mobile Top Up, Public Call Office for making STD/Local Calls, issuance of Bus Tickets wherever the facility exists, payment of utility bills, government dues etc online and real-time basis. All value added services are provided at a price but no cash is accepted as charges. All transactions are done by direct debit to customer's account maintained at FI Server. The customer is given a computer generated receipt. Full audit-trail is maintained and on-line audit is provided to check any misuse and abuse of the system. Transfer of funds is permitted using NEFT/RTGS system.
- **Routine Operations** – The Micro Banker/Facilitator is a local person who is at least 10th standard pass and trained to provide transfer of funds by the customer & to provide value added services using the hand held device. Cash will not be handled. ATM will be used for cash withdrawal as well as for cash deposit using a self sealing envelope in which customer will be able to put cash and drop it in the drop box of the ATM. The ATM managed service company will be involved to keep the ATM in running condition and also periodically take away cash containing envelopes at a centralized place to open the envelope in front of camera and deposit money in customers account.
- **Credit Linkage** – When customers' accounts are opened simultaneously another Skill Set Form is filled for each customer. This skill set survey is analysed and customers are clubbed together in specific groups vocation-wise so that suitable training programs could be organized for them for improving their skills. Thereafter these persons are provided requisite training for improving their skill-set capability. After training they are eligible for credit facility from the sponsored bank. The sponsored bank provides credit facility to these customers and these loan accounts are maintained through Micro Banking Centres.

This model is sustainable in the long run as it is largely self financing through value added service charges and can improve the quality of life of people staying in rural areas by providing them the financial services and other technology based safe and uniform services. The technology treats each transaction with same efficiency and speed. When you make an online railway reservation the technology ensures the customer is treated equitably.

Similarly other services use straight through, processing where there can be no human intervention. The government funds are certain of reaching the final beneficiary without any pilferage or delay. Yes, the system must be secure and access-control needs to be meticulously maintained.

This model provides following specific safeguards:

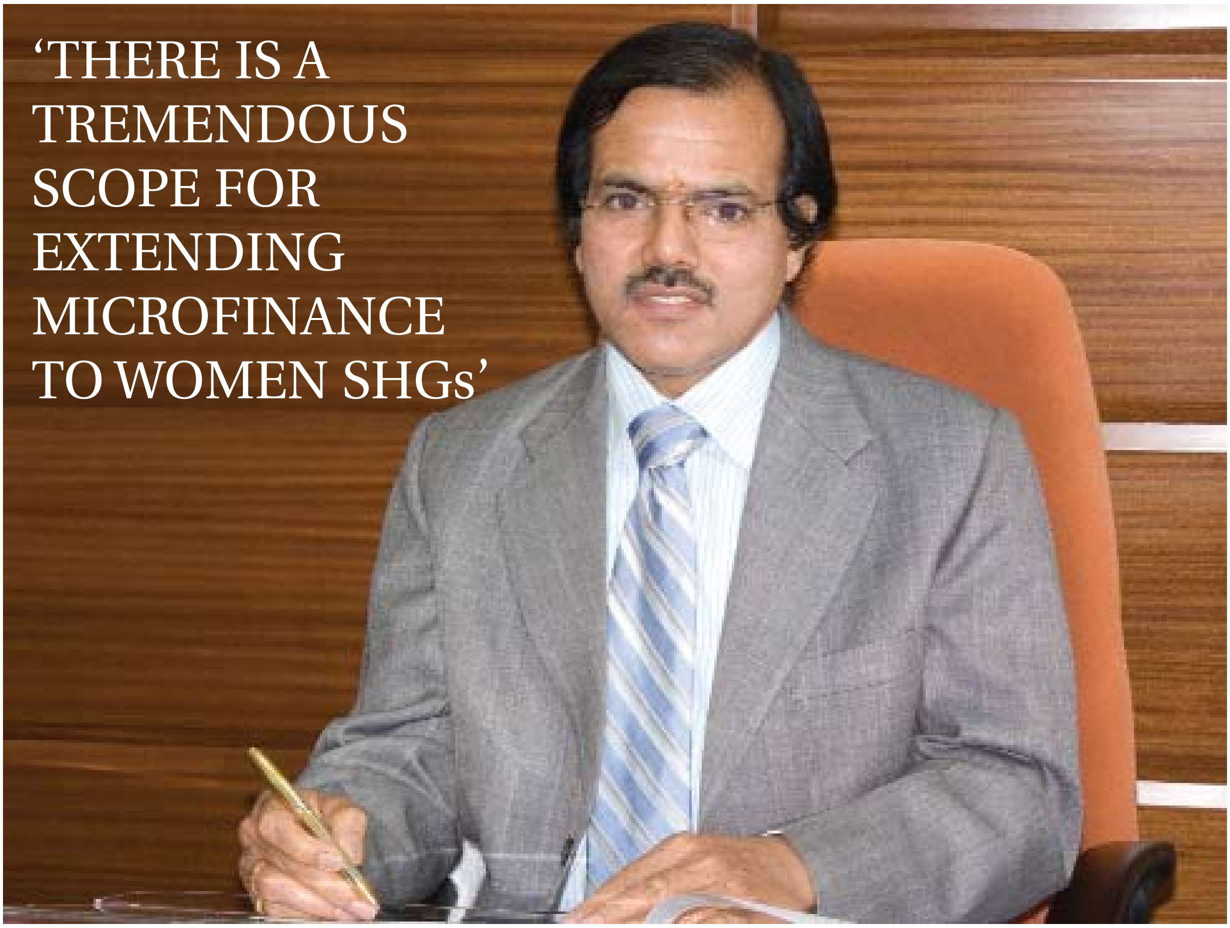
- To ensure each customer has only one unique account. Finger prints are obtained of each customer when account is opened. These finger prints are scanned and stored in a separate identity-server. Whenever a new account is opened, the finger printer check is run through the identity-server to ensure this customer does not have another account opened earlier. The system will issue immediate alert if same finger print matches with an earlier account holder. Thus no bogus customer will exist.
- ATMs used for cash deposit/withdrawal are specifically designed with voice-enablement i.e., after each customer action, the ATM will speak in local language, so that customer transaction is clearly understood by customer before he/she says yes to it.
- The key pad of the ATM is proposed to have templates of notes on each key to show to customer how many notes of 100 or 500 rupees are to be withdrawn by him, followed by voice-prompt in local language.
- All ATM operations are video-graphed to understand the transaction in case of dispute. Such videos are stored for 15-30 days.
- Hand-held device has two SIM cards for double security. One SIM card is used for accessing FI Server and the other is used for service provider's for fool proof security.
- Mini receipt is issued for every transaction on ATM as well as in Hand held device.
- Score based automatic credit system is proposed for customers to ensure system decides whether credit can be given or not. It also gives quantum of loan that a customer can be given without any human intervention, this will cut down delays and treat all customers uniformly.

The SSPB model is ideal for India as there are ATM machines which are available for below two lakh without need for AC and inbuilt UPS for 4 hours.

As world leaders in technology we should show the way to world in microfinance through technology also. ■

बैंक ऑफ इंडिया
Bank of India
Relationships beyond banking.

'THERE IS A TREMENDOUS SCOPE FOR EXTENDING MICROFINANCE TO WOMEN SHGs'



*In a career spanning 33 years, **M Narendra**, the Executive Director of Bank of India has held distinguished positions in the banking industry. Prior to Bank of India, he was with Corporation Bank. Being a certified associate of the Indian Institute of Bankers Mr Narendra has worked extensively in areas of Credit Policy, Credit Monitoring, Risk Management, Treasury, International Banking and Economic Research for the Bank. He is also recepient of several corporate awards in the Bank during his career. In an exclusive interview with **FE**, he shares his thoughts on microfinance.*

What is micro-finance?

Microfinance is the provision of broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor people and low income households and their micro enterprises. It is an effective tool for making the banking services accessible to the rural unbanked areas. Improved access and efficient provision of savings, credit and insurance facilities would enable the poor to set up micro enterprise, build up economic assets, manage the risks better and enhance income earning capacity and resultantly improve their standard of living.

How are you trying to develop Microfinance Sector?

The Bank is undertaking the micro financing activity through three delivery channels:

- Extends the finance to micro-finance institutions for onward lending to Self Help Groups (SHGs).
- Extends credit facilities to the SHGs for onward lending to their members.

The bank also extends finance up to Rs 50,000 directly for the village and micro-enterprises, particularly in rural areas. The activities financed are dairy farming, weaving, cottage industries, sewing/ embroidery work, rural transportation etc.

The Bank has been consistently taking initiatives to develop the Microfinance Sector and to expand the outreach and

बैंक ऑफ इंडिया
Bank of India
Relationships beyond banking

increasing the coverage under Microfinance. During the year 2009-10, Bank has decided to develop and promote at least five Self Help Group in each village in the area of operation and to ensure their credit linkage. Bank is also extending finance to the Micro-finance Institutions for on lending to SHGs so that their credit requirements can be fulfilled.

How much loans have you disbursed to them so far?
Bank is aggressively financing to the Microfinance Institutions and also to SHGs. The Bank has sanctioned credit facilities to 21 MFIs with an aggregate limit of Rs 240 crore. These MFIs cover over 99,000 SHGs and 11.81 lakh members. The Bank is having 1.93 lakh SHGs of which 1.42 lakh SHGs are credit link with the Bank and aggregate amount Rs 588 crore is considered to these groups. Out of these 1.18 lakh SHGs are exclusively women SHGs with credit facility up to Rs 491 crore.

In case of finance sanctioned to individual entrepreneurs for undertaking micro enterprises, the Bank has sanctioned credit facilities up to Rs 50,000 directly or through various government sponsored programmes. As of March, 2009, loans have been sanctioned to 6.35 lakh micro-entrepreneurs with the total loan amount of Rs16,635 crore.

Why poor people need financial services:

Poor people with the access to the savings, credit, insurance and other financial services are more resilient and better able to cope with the every day crisis they face. Micro-finance can smoothen the consumption level of the poor people and they can cope up with serious illness, loss of assets etc. They can also take advantage of economic opportunities. The impact of micro finance on the poor people is positive in following ways:

Micro finance helps very poor house-holds to meet their basic needs and protect against risks.

Distribution of solar lighting system on Kisan Diwas, Function held on 19th July at Barwadi Raigad District, Maharashtra. Seen in the photograph are M Nareedra ED,BOI B.A.Prabhakar ED BOI, P.D Upadhya Zonal Manager Raigad Thane Zone and P.P. Vetkar and Lungdhim Astt Gen Managers RBI

The use of financial services by low income households is closely associated with improvement in household economic welfare. Microfinance helps to empower women promoting gender equity and improving house-hold well-being.

What kind of interest rate are you charging to them?
The bank is extending finance at a concessional rate to SHGs. The rate of interest on loans extended to SHGs and micro-entrepreneurs is at minimum i.e. 9% p.a.

What are the segments in micro-finance you are looking to finance?
Bank is extending finance to all the viable activities suited to SHGs and it's members. The various allied activities to agriculture like Dairy, Poultry, Fishery, Sheep, goat rearing and bee-keeping, sericulture etc., are being financed by the Bank. Bank is extending finance to Self employed persons engaged in art/crafts activities like Artificial Flower maker, Band Player, Basket maker, Broom maker, Canewalla, Cobbler, Doll maker, Plumber, Rope maker, Rubber Stamp maker etc. The activities like, beauty parlour, book-binder, fish vendors, hair dressing saloons, papad pickle makers, photo-frame makers, are also considered for financing under micro-finance.

What are the geographical areas where you operate?
There is no geographical restriction for micro finance. Bank is having a total network of 3,021 branches in the country across the length and breadth of the country, even in interior hilly and forest areas. Out of these, 1,244 branches are in the rural areas and 624 branches are at semi-urban centres. Bank is shouldering Lead Bank responsibility in 48 districts for over-all development of Districts. Bank has also adopted 128 villages for over-all development. With this network ,

CASESTUDY

BANK OF INDIA MAKES THE PATH OF SUCCESS

Mr Kishun Mahto S/O Lt. Sukar Mahto. At Dubey Colony Lohardaza is a good example of success during his short span by his luck & labour with timely support of financial assistance provided by Bank Of India, Lohardaga Branch. Actually he was leading his life like a beggar, during his childhood, only at the age of about 15-16 yrs.

He got chance to work in one small hotel like a labour, washing plates, serving food items etc. He managed to purchase one small wooden Thela & started his business to sell groundnut, chana, etc. Again he started to sell tea, food items etc. after getting financial assistance of Rs 10,000 from Bank Of India, Loharidaga timely installment paid by him to the bank help in promoting hotel business after getting Rs 50,000 from the same bank. Due to his sincere efforts he could great sufficient income to pay his loan instalments in time. He has also got financial assistance of Rs 4 lakh and constructed one beautiful house, in good locality. He is also availing Cash Credit limit of Rs 2 lakh.

Only by his sincere hard work, sincere labour, this illiterate person is presently having a property valued not less than Rs 40-50 lakh. He is also having two old trucks for transportation purposes.

Now he is leading a sound life, with all household facilities and enjoyed a happy life with his family members. Children are studying in good school.

We wish him good luck.

BK. Sinha
Lead District Manager
Dist. Lohardaza

Bank is in a position to cover all the parts of the country for extending micro finance.

What is micro-finance institution?
Microfinance institution (MFI) is an organisation that provides micro finance services to the poor people. It may be a small organisation to large commercial banks. An organisation that provides financial services to the poor.

How can MFIs be made more affordable to the poor?
There should be legal framework for functioning of the microfinance institution. It is generally observed that these institutions are charging a very high rate of interest to the ultimate beneficiaries. In view of this, there should be interest rate ceiling on microfinance institutions. These institutions should measure and disclose their performance both – financially and socially.

Banks should ensure that microfinance should aim to ensure permanent access to institutional financial services for the poor

In the General Budget 2009-10, micro finance emerging as important area. Please comment?
In the Budget speech, The finance minister has aimed to empower the weaker section. In this direction, the Swarna Jayanti Grama Swarozgar Yojana (SJSY) restructured as National Rural Livelihood Mission to make it universal in application, focus in approach and time bound for poverty eradication. In addition to capital subsidy enhanced rate, interest subsidy to poor house-holds to be provided for loans up to Rs1 lakh from Banks.

There are over 22 lakh women Self Help Groups linked with Banks. Reach of SHGs to be widen to enroll at least 50% of all rural women in India as members of SHGs over the next five years.

In view of the above Budget announcement, there is a tremendous scope for extending microfinance to women SHGs by the Banks. Banks should ensure that the microfinance should aim to ensure permanent access to institutional financial services for the poor people and their small business. ■

MICROFINANCE: IMPACT ON THE INDIAN MARKET

Industry estimates peg the reach of MFI at over 50 million individual customers

KALPESH DESAI

Microfinance, which includes a wide variety of financial services such as micro-savings, micro-credit, micro-pension, micro-insurance and micro-remittance, has seen substantial growth in India in the last few years. Industry estimates peg the reach of Microfinance Institutions (MFI) at over 50 million individual customers, the vast majority of which are serviced and governed through the self-help group (SHG) model. The expansive reach of SHGs are now being leveraged by not just financial institutions to lend money, but also by consumer durable manufacturers and distributors who believe that this is a large untapped market for some of their existing goods and services, many of which are being customised to serve this market segment.

While the reason that MFIs originally started business was to address the unorganised money-lending business, the overall intention was to enable the poor to get out of their debt traps from local money lenders by providing credit for income generating activities, in addition to services that would allow a safety net for their families, such as micro-insurance. Having said that, MFIs have also realised that this market segment offers tremendous return on investment if the business is carried out professionally, as the percentage of defaults from this community is miniscule, a fact that is attributed largely to the group-based lending practice where peer pressure to pay back is high.

Microfinance has impacted not only the rural and urban poor, but also a number of businesses that serve this target segment.

Financial inclusion: The rural and urban poor who were hitherto ignored by banks, financial institutions and insurance companies, have now become an attractive alternative opportunity for lenders purely because of the high returns on investment and the low risk of recovery. This has also helped the rural and urban poor, as it has given them access to funds that cost lower than the local moneylender (who would normally keep generations of families in debt due to malpractices in lending), and has also enabled them to gain visibility into their financial future to an extent. In addition, with MFIs acting as channels for other goods and services, the rural poor now have access to things which were earlier unknown to them or were out of reach.

Provision of High Growth Markets for Industry: In addition to financial services, companies that manufacture mobile phones, household goods (such as televisions, refrigerators, water purifiers and stoves), consumer products (soaps, shampoos and detergents) and farm equipment (including tractors!), have made an aggressive foray to service the rural areas. Some companies, such as Godrej, have even created innovative products such as a refrigerator without a compressor, and are selling it at a price point that has been arrived at after taking market feedback from potential customers. With the number of people under the MFIs' umbrella increasing exponentially, these companies are using MFIs as a channel to distribute their products.

Rural Employment: With new products entering the rural market, it has led to a high demand for rural sales agents for these products, with many companies appointing rural housewives to market products within a community for a sales commission. This has automatically led to a higher income generation for many rural families, and has also helped empower women to a large extent by providing them with an opportunity to earn income and have a sense of purpose.

Creation of Micro-Entrepreneurs: In addition to rural employment being created, MFIs are also encouraging the rural and urban poor to start an income-generating business, which is spawning a new breed of micro-entrepreneurs who earlier had no access to capital. For example, MFIs are lending money to rural entrepreneurs to buy a tractor, and rent it out to farmers on a pay-per-use basis.

Education: With the rural and urban poor having access to fairly regular income, a number of them who realize the value of providing education to their children, are now willing and able to spend on it. Although the fees gained through an individual student are very less, the potential numbers are very attractive from a business point of view, especially with technology-led education gaining popularity in villages. This also has a very powerful social impact as access to education provides people with knowledge of happening outside their daily lives, and this opens up new scenarios and ambitions within them.

It is only through the right technology and processes that microfinance initiatives can be scaled up quickly

Microfinance is an area which is arguably most dependent on technology in order to be effective in terms of provision of services to the target audience, and in a cost effective and operational efficient manner. It is also an area where sustainability and outreach are both extremely important, i.e. if either of these qualities is compromised, it would have a negative effect on all initiatives and as a result, on the economy.

It is only through the right technology and processes that microfinance initiatives can be scaled up quickly and efficiently, thus ensuring sustainability of programmes. And such sustainability has to be cost effective to ensure outreach to new communities, villages and states; otherwise the MFI will not achieve its mission of reaching out to vast multitudes of people. Standardisation challenges in technology also exist, for e.g. bearing KYC rules and regulations in mind, should mobile phones should be used as a primary identifier or whether it should be smart cards that can be read by a smart card reader and cross-checked through biometric authentication. In addition, whichever technology is used, it has to be transparent to the end-customers, so that it builds a high level of confidence within them and encourages them to switch over from the local money-lender to an MFI.

While the sustainability v/s outreach challenges still exists when it comes to reaching out to people in remote areas, or to people with low economic and social status, technology is continuously evolving, and is today available to circumvent and/or address these challenges and enable MFIs to further their positive impact on society. ■

The writer is CEO, Agile Financial Technologies

GOVT BORROWING TO PUT PRESSURE ON INTEREST RATES: RANGARAJAN

The Indian economy is expected to full recovery in 2010

Mumbai: The huge Government borrowing is likely to put pressure on interest rates in the remaining part of this fiscal, MP and former Reserve Bank Governor, C Rangarajan said at the SKOCH summit on inclusive growth, which was held in Mumbai recently.

This year the government borrowing will be four times than projected in the 2008-09 Budget. This is going to be a large borrowing. It will put some pressure on interest rates, Rangarajan said. However, a low appetite for credit from the private sector this year would facilitate the public borrowing in the first-half of the year, he said.

This would help to minimise the impact of borrowing on the interest rates, he said. It (the government borrowing) is going to be a matter for the Reserve Bank to manage. To some extent, the private sector borrowing this year may not be that large. This would also facilitate the large government borrowing, Rangarajan said.

The Indian economy is expected to recover from the impact of global recession in the second half of 2009 but a full recovery would happen only in 2010, Rangarajan said.

It is likely to pick up in the second-half of this year. But the real and substantial recovery will happen only in 2010, he said.

Asked about the chances of the Chinese Yuan replacing the US Dollar as reserve currency, Rangarajan said he did not expect that to happen immediately. I do not think that it will happen immediately, he said. **PTI**

[COLUMN]

MICROFINANCE IS MORE THAN CREDIT

It has made great strides to improve the lives of the poor

VIKRAM AKULA

The orderly aisles of Metro, the German wholesaler, seem a world away from the villages and slums of the poor people we serve at SKS Microfinance. But our collaboration with Metro, along with other high-quality partners, is giving them access to quality goods and services that help improve their lives. (http://www.metrogroup.de/servlet/PB/menu/-1_l2/index.html)

At Metro, shelves filled with a huge variety of goods line its spacious warehouse in Hyderabad. Aisles are filled with the trappings of middle- and upper-class life: running shoes, treadmills, imported fruit, refrigerators and air conditioners. Indeed, an SKS member who owns a small kirana shop visited Metro said, "This place is not for me." Another Kirana shop owner said, "It has AC (air conditioning). I've never been in AC! AC is only in the hospital!"

But within Metro is a special SKS-designated storeroom filled with products destined for *kirana* shops owned by SKS borrowers. Through a pilot program launched early this year, Metro is supplying hundreds of products – from Colgate toothpowder to Nescafe packets – to 95 *kirana* shops in the Hyderabad area. This partnership brings the choice, convenience and affordability of Metro to SKS members owner of *kirana* stores, as well as their customers.

Microfinance has been highly successful in distributing small loans to the poor to start income-generating work, from raising a cow to selling vegetables, which helps break the cycle of poverty. Now at SKS we are using our far-reaching microfinance network among 4.5 million members across 19 states to empower the poor through other means besides credit. Our partnership with Metro is just one example.

Many SKS members have taken loans to open kirana shops as their micro-enterprise. They normally have to trek to the local market or bazaar to buy goods to stock their stores. This usually involves a long commute, time-consuming haggling and higher costs associated with the smaller quantities that poor people tend to buy.

Our partnership with Metro streamlines that whole process. Metro delivers goods straight to select SKS *kiranas* every week, saving our members time and commuting costs. Our borrowers select goods from a special inventory list geared toward SKS *kiranas*. They benefit from the cost reduction that a wholesaler provides, just as a middle-class consumer who buys in bulk would, and the Metro-supplied products supplement the *kirana*'s original inventory with a wider selection.

We don't believe we are creating new demand among poor Indians but rather, that we are catering to an unmet demand that already exists. And even if the demands of the poor are being met, they usually have to pay a "poverty premium", meaning higher prices for everything from water to consumer goods. Our collaborations with partners like Metro give our borrowers access to quality goods and services at fair prices they deserve.

To watch this in action, I recently visited some of our members' *kirana* stores in south Hyderabad. The store was located on a narrow lane and we squeezed onto the storefront to watch while an SKS field assistant scrolled through an inventory list. He consulted with the proprietor, a 50-year-old man named Aijaz Hussein, then placed new orders from Metro via mobile phone. SKS's role is to provide credit to purchase goods and the *kirana* owner pays back our field assistant each week.

Mr Hussein runs the store but his wife, Naseem Unnisa who is "maybe 40" is the one who has borrowed SKS loans to open the store, since we only loan to women. Mrs Unnisa stood near Mr Hussein. She wore a black veil so that only her eyes were visible.

Mr Hussein's orders from Metro have grown from Rs 1,945 at the beginning of the program to Rs 12,044 in July. He used to spend two to four hours to buy goods at the local market so Metro's weekly deliveries are a big convenience for him, he told us. And he estimates that his costs are 10% lower because of Metro's price discounts.

This is just one way that SKS is tapping the enormous potential of our extensive network among the poor. Big players have great difficulty reaching this vast market at the bottom of the pyramid that they would like to serve. Meanwhile, SKS is looking at a host of ways to leverage our distribution channel.

We've had great success with a micro-insurance product through Bajaj Allianz that we offer to our borrowers. We initially talked to our borrowers and found that they wanted insurance policies with weekly installments of Rs 20. Most large insurers would scoff at these tiny payments and look for higher, less labor-intensive returns elsewhere. But Bajaj Allianz designed a credit product that offers exactly what our borrowers wanted. Those small payments of Rs 20 do add up. SKS launched insurance with Bajaj Allianz about nine months ago and today we have 1.8 million clients. (www.bajajallianz.com)

There is tremendous potential when a big company like Bajaj Allianz comes forward and meets us halfway in serving the needs of the poor. And because insurance penetration in India is sadly still a tiny percentage, we feel we are making progress in giving Indians access to this important social safety net that, unfortunately, is still reserved for middle- and upper-class Indians.

I should emphasize that we don't just partner with anyone. At SKS we do significant due diligence on products to ensure that they are in the best interests of our customers. We make sure our partners are aligned with our goal of empowering and serving the poor.

When we were developing a pilot program to distribute solar lanterns we looked at several companies offering different products. Only about half of India has access to reliable electricity. The poor suffer from the adverse effects of dim and dirty kerosene lamps. Access to safe, affordable, sustainable lighting is a priority for the poor. So we took three different solar lighting products and let a small group of borrowers test them for a week. They came back to us with their feedback about durability, ease of use, lighting quality and affordability. After more consultations, we decided to partner with D.light, a Delhi-based start-up that happens to be run by an entrepreneur who knows first-hand about the hazards of kerosene. Sam Goldman, chief executive of D. Light, worked for several years in Benin where his neighbor's son was badly burned from spilled kerosene. (www.dlightdesign.com)

> We don't believe we are creating new demand among poor Indians but rather, that we are catering to an unmet demand that already exists

Trust and respect between SKS and its members, built up over years of relationship-building, is a major reason for or success. We do our best to maintain this critical and invaluable relationship with our customers and know that to bring them poor quality products is a disservice to them and our mission. Customers are never under any obligation or pressure to buy these products. In fact, I consider our third-party partnerships to be ones more of awareness-building than marketing. After we have vetted products, our field assistants (who meet with our borrowers weekly in any case to distribute loans and collect payments) explain the products and allow members to touch and feel them. SKS borrowers decide for themselves if the product makes sense for them.

Several other collaborations are in the works, including a tie-up with Airtel and Nokia to offer mobile phones to our customers. We launched this pilot in Andhra Pradesh last summer and have so far financed 50,000 phones. Communication is vital to modern society and in India, this hinges on mobile phones. Think of the business and work time lost if you didn't have your mobile phone — not to mention the support and knowledge from being in touch with relatives and friends. Not surprisingly, the feedback from our mobile phone partnership has been positive. Now we are working on scaling up so that more of our customers can benefit from the seemingly simple act of dialing a phone to connect to someone. www.airtel.in (www.nokia.co.in)

Access to clean drinking water is one of the most grievous problems in India. More children in India die of diarrhea and water-borne ailments than any other disease. But poor people in remote villages with contaminated water sources or depleted wells have little choice in what they drink. Thus, we are also testing a pilot program for water purifiers made by Hindustan Lever to give access to this most fundamental human need. (www.hul.co.in)

One thing to clarify is that we are not in the business of making other goods and services like phones or solar lamps. Our core competency is finance. Through our partnerships, we merely provide finance our customers can use for products from Metro, Bajaj Allianz, Airtel, Nokia, D.light and others. They are the specialists in consumer goods and logistics, mobile phones and sustainable energy; SKS is not.

Yet linking with experts in various industries allows us to better serve the poor.

Micro-credit has certainly made great strides in helping improve the lives of the poor. But by forging synergies with high-quality partners we are creating a whole greater than the sum of its parts. The promise of microfinance is even greater when we do more than what we could do alone. ■

[COLUMN]

INCLUSIVE GROWTH THROUGH SKILL DEVELOPMENT

Poverty, unemployment and labour market scenario in India

AJAYA MOHAPATRA

Despite the fact that economic reforms have added momentum to industrial productivity and able to generate much desired foreign investments for India to witness fast economic growth but this has not resulted in creating additional jobs as desired. According to a report by the Washington-based Institute of Policy Studies (IPS), the combined sales of the World's top 200 MNCs is now greater than the combined GDP of all but the world's nine largest national economies. However, these multinationals could able to generate merely 18.8 million jobs as total direct employment which is one-hundredth of one percent of the global workforce.

Even though India is one of the fastest growing economies in the world having remarkable acceleration in economic growth, with an average growth rate of more than 7% over the past decade since 1997 (barring 2008-09, when India's economic growth was falling short at 6.7% due to global economic downturn), reducing poverty by about 10 percentage points, yet 25% (287.5 million) of the India's population is below poverty line (BPL). Of the estimated 1100 million population in India in 2007-08, 496.4 million constituted as part of work force of which 49 million (9.9%) are unemployed (CIA World Fact Book). By 2010, it is expected that 63 million labour forces will be unemployed in India more than entire population of UK, France and Italy, due to slower economic growth.

Of the 1.1 billion population work force participation is at 400 million. The work force participation in the organised sector is stagnant at 30 million (22 million engaged in Public Sector and 8 million in Private Sector) since last thirty years. Over the previous decade when economic growth accelerated but employment growth fell to less than half that of the 1980s, raising fears that India is witnessing jobless growth (Skill Development in India, January 2008, Report No. 22, The World Bank). Unorganised sector employment constitutes the bulk of the work force at 360 million. The informal economy is still on the rise constitutes 91% of the work force. 30% (140 million) of the work force do not have any regular source of work or income (NSSO 61st Round Data, 2004-05). India has abysmally low per capita income ($460) as compared to US ($30,000) and Sri Lanka ($833). Overall productivity in India is extremely low ($5.45/person) while comparing with Thailand ($11.69/person) and Mexico ($20.51/ person).

India is a country with high skill deficiency

For any country, skills and knowledge are the driving forces for socio-economic development, and promoting equity and inclusive growth. Countries with better levels of skills are well equipped to address the opportunities in the world of work and potentially capable of addressing the ever growing challenges of technological innovations, and meeting requirements of modern high-tech industries and services sectors. However, in India more than 70% of the work force combined, organized and unorganized sector is illiterate or educated below the primary level (NSSO 61st Round). Merely 5.06% of the youth in India are single skill vocationally trained as compared to 95.86% in South Korea. The corresponding figure for Botswana, Colombia, Mexico and Mauritius is 22.42, 28.06, 27.58 and 36.08 % respectively. Besides, 2.5 million graduates passing out of colleges each year without skills connecting to employment.

Even three years after graduation, over 60% of all graduates remained unemployed. Although a significant proportion of apprentices find employment, close to two-thirds is not employed in the trade for which they were trained – a third of these had been trained in obsolete trades. There appear to be three reasons for this: (a) limited growth and labour demand in the manufacturing sector, (b) mismatch between the skills attained and those actually in demand, and (c) mismatch between the skills taught and the graduates' own labour market objectives (Skill Development in India, January 2008, Report No. 22, The World Bank).

Annually 12.8 million work force is entering into the labour market for the first time along with the backlog of 49 million unemployed work force looking for employment opportunities in the organized and unorganized sector. However, the current capacity of the government to address skill development through various programmes is merely 3.1 million. Thus, India has enormous challenges of not only absorbing new entrants to the job market but also clearing the backlog.

Clearly, a very large percentage of the work force especially youth are highly skill deficient. Therefore, a country like India which has the 'demographic dividend' needs to pay immediate attention in developing skills and knowledge of the ever-growing work force and create a repository of skilled human capital to meet the ever-increasing challenge of skilled work force in the country.

India can be the skill capital for the ageing-world

India has the unique opportunity to provide workers to an ageing world. India has the youngest population in the world. In the year 2000, median age of India was 23.7 years whereas in case of China, Europe and Japan the corresponding figure was 30, 37.7 and 41.2 years respectively. By 2025, India will have the dependency ratio (over 65 years) of 12.1 for every 100 people. In case of China, Europe and Japan, the dependency ratio will be 19.2, 33.2 and 49 respectively. It appears that for the first time demographics are working in India's favour and the country has got the rich 'demographic dividend' which can be harnessed through effective skill development initiatives not only to meet the skill gap in the country but also provide skilled work force to the ageing world.

Inclusive employment through skill development

Looking at the dismal performance of the organised sector in creating employment opportunities since last thirty years suggests that a country like India with 500 million work force cannot be able to engage the entire work force through wage employment. Therefore, it is indeed necessary to create self-employment to absorb a large percentage of the ever-growing work force.

In order to address the issues of unemployment and jobless growth in India, there is a need to promote micro-entrepreneurships especially amongst youth. It is pertinent to note that running a small business or setting-up of a micro-enterprise requires multi-skills rather than just acquiring a particular occupational/ technical skill. Therefore, an integrated multi-skilled course can be designed in order to promote micro-entrepreneurships to facilitate self-employment and at the same time, enable micro-entrepreneurs in creating wealth as well as employment opportunities. To run a small business, besides occupational skill, multi-skills include the soft-skills that consist of developing skills in financial management, communications, human resources, understanding of market and basic knowledge of— computers, statutory and legal provisions.

While one of the mandates of Industrial Training Institutes (ITIs) and Industrial Training Centres (ITCs) is to train workers for the informal sector, evidence shows this is rarely the case. The share of ITI graduates who entered self-employment or became employers was not much greater than 10 per cent while only around 5 per cent of ITC graduates joined the unorganized sector. The main reason for such dismal record is that training imparted by ITIs and ITCs focuses simply on possessing a particular occupational/technical skill rather than addressing different facets of multi-skills.

In order to create multi-skilled work force through skill development initiatives to address the issue of unemployment and jobless growth, public-private partnership (PPP) is the need of the hour. The first step in this direction was the constitution of National Skill Development Council (NSDC), an apex body for skill development under the leadership of Prime Minister along with a few union ministers, and representatives of public and private sector. Secondly, a national skill development policy has also been put in place to address the vital issue of skill development and create employment opportunities for 92 million work force as referred in the 11th Plan.

In order to achieve the ambitious target, there is a need for the government to improve the curriculum of ITIs and ITCs keeping in mind the skill requirement of Indian industries and to address self-employment through provisions of multi-skills in the curriculum by engaging the representatives of government, Indian industries, and accrediting agencies for vocational training along with civil society organisations involved in skill training and promotion of micro-entrepreneurships. Secondly, the skills and knowledge of the existing trainers at ITIs and ITCs need to be upgraded. Further, there is a need for accreditation and standardisation of skills to improve standards ITIs and ITCs across the country and improve skills of job seekers to meet the requirements of industry or to run a small business. Besides, more ITIs and ITCs need to be set-up across the country through PPP, as there are merely 1896 ITIs in the country which is woefully inadequate to meet the ever-growing challenge of skill development. Government can also allow the private sector or the capable civil society organisations to adopt a few existing or set-up new ITIs/ ITCs on a 'build-operate-maintain' model. A pilot project in this regard can add significant value.

Besides, government can also set-up small-business incubation centres (SBIC) through PPP, whereby the skilled work force who are willing to set-up their micro-enterprise can be allowed to do apprenticeship in the incubation centres for 3-6 months to get hands-on experience of acquiring multi-skills to run the business and then set-up their micro-enterprise. Government can also create a National Mentor Pool in collaboration with the associations of industries and MSMEs to pool mentors from industries and MSMEs to extend their mentoring support to young and budding entrepreneurs in setting-up of their enterprise.

Strategy to address skill development for wage-&-self employment

MFIs can play a pivotal role in skill development. Since last two decades MFIs in India have been actively engaged in promoting sustainable livelihoods of the poor by providing financial services including credit, savings and insurance for lives and livelihoods. The financial services provided by MFIs have enabled thousands of poor people to graduate from subsistence livelihoods to become micro-entrepreneurs. As MFIs have been providing financial services to millions of poor people in income generating activities primarily in the unorganised sector, therefore, MFIs can play an important role as an intermediary in skill development through PPP under 'repair and prepare model'.

Through 'repair model', MFIs can source potential entrepreneurs, essentially from their client base who are already running small business either in groups or as individuals and provide loans for skill development. MFIs can enable these potential entrepreneurs to undergo multi-skills training to acquire both technical and soft skills to expand their business as micro-entrepreneurs. At the same time through PPP, MFIs can develop partnerships with government, industries and financial institutions to enable micro-entrepreneurs with mentoring support and higher quantum of loan for business expansion.

Under 'prepare model', MFIs can identify potential youth in their respective areas who are largely school drop outs willing to undergo skill training for employability and provide loans for skill development and enable youth to be employable either through wage-&-self-employment. MFIs can also provide micro-finance services to the skilled youth once they complete their training to set-up their small business along with institutional and business development services.

Several PPP models have also been tried since last few years to address the issue of skill development. One such initiative is CII-City & Guilds skill development initiative which has made significant contribution in the field of skill development. Besides, there are instances when large corporate have adopted unique business model in creating employability for the affected or displaced people in their Greenfield projects through PPP. This has resulted in creating self- &-wage-employment opportunities by adopting 'repair & prepare model'. The large corporate in collaboration with the district administration and NGOs have identified potential youth and women to undergo skill training and enabled them to either run a small business with initial seed capital and mentoring support through their CSR initiatives and assisted these micro-entrepreneurs to become vendors/suppliers to the company or get employed in the Greenfield projects. This has not only helped the company in garnering support of the local community by creating employability but also enabled company in getting the skilled work force for their Greenfield projects. At the same time, company could also able to fulfil its mandatory requirements under 'Rehabilitation and Resettlement Policy'. This kind of win-win business model can be replicated elsewhere in the country by the corporate through PPP.

One such unique business model was adopted by ArcelorMittal in its Greenfield project where the company is setting-up of 12 million ton per annum (MTPA) capacity steel plant in Patna Block, Keonjhar district of Orissa. In order to create employability and realising that the company in near future need skilled work force to be engaged in steel plant, therefore, ArcelorMittal in collaboration with the district administration and civil society organisation have identified 78 potential youths in the first phase from the project affected villages (PAV) to acquire multi-skills including technical and soft-skills to be engaged with the company. ArcelorMittal has sponsored all the candidates to undergo skill training at Don Bosco ITI, Rourkela. The company for its subsidiary unit viz. ArcelorMittal-DHAM Project have also sponsored 19 youths who were initially undergone multi-skills training at NTTF Vellore followed by apprenticeship at the Project site and finally got engaged in the project.

To conclude, in order to promote inclusive growth there is an urgent need to address the issue of skill development and employability. It is also pertinent to note that to address these vital issues, there is an immediate need for government, private sector and civil society organisations need to join hands and extend their support to promote inclusive skill development. However, the question remains, can the National Skill Development Council with the able leadership of Prime Minister able to create a movement like National Literacy Mission to engage the country to address the vital issue of skill development and create employment opportunities for millions of job seekers? ■

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[COLUMN]

EXPORT CREDIT INSURANCE:

AN EFFECTIVE MARKETING AND FINANCING TOOL

It enhances the borrowing capacity as it includes foreign receivables in the collateral base

V. VISWANATHAN

International trade of goods and services thrives mainly on credit. An ideal way of doing export business is to insist on full value of the goods or services to be paid in advance. Or an exporter may insist on an irrevocable Letter of Credit from a reputed bank. However, cash in advance and letters of credit are no longer competitive terms in the international market place. Buyers in Western Europe and the Pacific Rim, accustomed to purchasing on open account credit terms from their other suppliers, may expect the same consideration from Indian exporters as well. Customers in the emerging markets of Asia, Latin America, Africa, and other regions may be facing scarce capital and high interest rates, making it difficult or impossible to order products without credit terms. When the export business of an Indian exporter requires him to extend credit overseas, he can protect his company's riskiest asset — foreign receivables — against nonpayment losses with an export credit insurance policy.

Export credit insurance is an effective marketing and financing tool that can help an Indian company close more sales, increase order quantities, negotiate larger contracts, and penetrate new markets. Export credit insurance also enhances the borrowing capacity by making it possible to include foreign receivables in the collateral base. While ostensibly designed to mitigate non payment and other foreign credit risks, the primary benefit of export credit insurance is that it enables an Indian exporter to use competitive credit terms to increase both his international sales and the profitability derived from these revenues.

Export credit insurance will:

- Increase order quantities by enabling overseas customers to economically stock more of the products of an Indian exporter; transfer inventory carrying costs to the foreign distributors; make larger production runs which reduce the impact of manufacturing setup costs; and take advantage of quantity discounts when purchasing raw materials or finished goods from suppliers.
- Negotiate overseas distribution agreements with larger stocking requirements by offering terms to new distributors; motivate existing distributors to keep more of the products on the shelf for increased visibility and availability in their local markets.
- Open new markets which the Indian company might otherwise perceive as too risky for extending credit terms; and take advantage of the opportunities to penetrate and establish market share in the world's big emerging economies. In addition to supporting the expansion of the company's international sales, export credit insurance enables the company to obtain more favourable financing from commercial banks by including insured foreign receivables in the borrowing base. The exporter can assign the rights to any claim payments by naming the bank as the loss payee under your policy.

Comprehensive credit insurance protects against political and commercial risks which can cause non payment of the receivables. Commercial risks are defined as buyer's insolvency, repudiation or protracted non-payment of the receivables. These problems could occur for many reasons, such as fluctuation in demand, natural disasters, or general economic conditions in the buyer's country. Political risks include war, civil strife, and revolution, as well as currency inconvertibility, expropriation, and changes in import or export regulations.

There are several ways of protecting an exporter's receivables. He can opt for his entire turnover covered under a open policy or insure select buyers or specific transactions. Generally speaking, the broader the spread of risks, the lower the cost of the insurance. Premiums are based on the credit terms extended, the countries to which the exporter may export goods and a company's previous experience under the earlier credit insurance policies. The cost is low, in most cases much lower than the fees charged to confirm letters of credit. Whether or not the exporter passes this incremental expense on to overseas customers, the price paid for insuring the receivables is insignificant compared to the value of penetrating new markets and holding onto market share.

Coverage of export sales for credit terms of up to one year, is considered short-term credit insurance. All types of exports — including raw materials, spare parts, industrial machinery, consumer products, service contracts, etc. — are eligible for short-term coverage. Under medium-term policies, supply contracts, construction projects, turnkey projects and services involving deferred payment terms extending beyond one year and up to five to seven years and in some cases even up to ten years can be insured. Preshipment insurance is available for custom-manufactured goods or items with long factory lead times both under short term as well as medium and long term export credit insurance. Consignment sales, shipments from a foreign warehouse, and distributor floor plans can also be insured under credit insurance polices. India has been a leading player in the international IT

arena. Payments due under such software projects,IT Enabled services like medical transcription, call centre services etc can also be insured.

If an Indian company has a background in foreign credit sales, the credit insurance policy will enable it to extend terms to most foreign buyers based on the ledger history and its own internal credit analysis. The policy provides for certain discretionary powers vested in exporters to protect themselves automatically without the intervention of the insurer. While eligible for the same coverages, less-experienced exporters can apply for individual approval of each customer's credit limit prior to extending terms. Following the failure of a covered foreign buyer to pay its credit obligation to the company, for virtually any reason, the company can file an insurance claim and payment will be pursued through international channels. Properly documented claims will be paid within the period of time specified in the policy, even if the recovery effort is still in process. Normally, the waiting period for settlement of claims also known as the time period for ascertainment of loss will be 4 months from the due date/extended due date of payment of an invoice. If claims are on account of resale losses, the same becomes payable as soon as the loss is ascertained. In case of insolvency of buyers, the insurers stipulate a lower waiting period of 2 months. However, this shall be subject to the exporter filing his claim with the receiver of the insolvent estate of the buyer and obtaining an acknowledgement.

Export credit insurance policies are available from Government agencies and private sector insurance carriers. In India, Export Credit Guarantee Corporation Of India Ltd., (ECGC) is the Governmental agency that provides credit insurance support to Indian exporters both under Short term as well as Medium and long term exports. There are half a dozen private players in the field of credit insurance in India but ECGC continues to have a lion's share of the Indian export credit insurance market. In addition to the standard forms of insurance policies, coverages can also be designed to meet the requirements of both experienced exporters and companies who are established and whose requirements of credit risks coverage may be different. One of the ways of seeking a customized solution for a company's credit insurance requirements is to sit with the insurer and explain the requirements so that the latter can examine it. Alternatively, a specialized credit insurance broker can custom-design the export credit insurance program and keep it up-to-date as the export business of the company grows. However, in India though a number of Insurance brokers are active in the credit insurance area, their knowledge and understanding of the products is very limited and it calls for increased efforts on the part of the insurance companies to impart the professional knowledge and skills.

Used extensively by companies in most of the developed and developing countries, export credit insurance is an essential competitive vehicle for Indian exporters. When cash in advance and letters of credit aren't feasible or desirable, an Indian company can extend competitive credit terms overseas — and be confident of payment — with export credit insurance. ■

The author is general manager, National Marketing Division, ECGC Mumbai.

[VIEWPOINT]

MICRO CREDIT – WAY TO WOMEN EMPOWERMENT

Better microfinance network have made women to be more self-reliant

C. SAHAY

We focused on women because we found giving loans to them always brought more benefits to the family", says Mohd Yunus, Noble laureate and pioneer of microfinance.

On my dining table in Delhi, there stands a small insignificant plastic bottle with a red lid. What is significant is that the bottle contains delicious bamboo shoot pickle purchased by me in a remote village of Jharkhand being preserved and sold by a woman under the self help group scheme and sponsored by the block level thrift and credit society. A part of Rs 60,000 crore industry is slowly catching up in the sleepy state of undulating hills and meandering rivers.

Despite being a mineral abundant state and also rich in non timber forest produce as well as amply endowed with educational facilities, the abysmally low economic and social indicators is a stark reality. The complex poverty syndrome partly stems from the demography of the region which pre-dominantly comprises of tribal people. The tribes are further categorised into various ethnic groups based on religion, language, occupation and area of domicile.

As there has been vigorous missionary activities in the region since mid nineteenth century, the state has a substantial tribal Christian population. This segment is educated, socially aware and economically better off than their non Christian brethrens who adhere to animistic rituals and are prone to ignorance and exploitation. The challenges to human development in the area are innumerable. Apart from structural deprivation, social and economic exclusion, geographic isolation, disintegration due to rural migration and indiscriminate urbanisation are the critical inhibitors in realising full potential of the state. Very often the villagers are victims of caste ridden feudal economy in the hands of money lenders, petty businessmen and landowners. The young tribals, especially the girls are so desperate to eke out a living that they easily fall prey to human trafficking or

work as domestic helps in far flung parts of the country wholly alien to their culture and environment. The men are lured by the different naxalite groups. Either way they are vulnerable and open to exploitation. The civil strife in the form of naxal turbulence is a socio economic challenge and less of law and order problem as it is made out by the administrative machinery.

I had the opportunity to attend a week long programme on gender equity and women empowerment under the aegis of the state administration. The class room interaction was supplemented by visits to concurrent self help groups functional at grass root levels, beneficiaries of Integrated Child Development Schemes and microfinancing under thrift and credit societies. Our foremost exposure to a self help group was the most notable. The members were women of varying ages and mostly housewives. Although in a fledgling condition, the group boasted of a cluster of several small NHGs (neighbourhood groups of five women) and had elected office bearers as the President, Secretary and Treasurer. This is a natural fallout of the concept of power to the people enshrined in the 74th amendment to the Constitution.

We had a privilege to attend one of their General Body Meetings. The business was discussed by these semi literate and semi urban women in all solemnity and seriousness akin to a corporate board meeting. The group had formed a cooperative which was involved in bulk purchase of groceries, soaps, detergents and similar household items of daily needs. These were then packed into small pouches and sachets and sold in the small shops and kiosks in the villages lying in the vicinity. The margins of profit were miniscule but the volumes large. The credit was furnished by the State bank of India collateral free and the borrowers have not defaulted on the repayment schedule. The credit worthiness had thus been established.

The members were given adequate training and provided with relevant information to enable them to become effective participants by building up their capacity.

In the instant case, the group was debating on the pros and cons of acquiring a trekker jeep, popular form of transport in the semi-urban cum rural belt and to ply it commercially between the nearest town and the wayside villages. The cost benefit analysis chart prepared by the members was praiseworthy. However no decision could be arrived at and the matter was referred to the higher community level society to examine viability of the project. The activities of the group were coordinated by a block level facilitator or a group leader, an official with social work background.

The group also extends instant emergency loans to its members from the core fund. Financial assistance is also provided to kickstart small enterprises of their own. Setting up tea stalls, poultry, livestock, dairy, stitching of clothes, mushroom cultivation, tussar and sericulture and vermiculture are quite popular. The members repay the loans as there are non negligible interest imposed and they realise the advantages of such schemes in the long run to alleviate their misery.

On an informal chat with the members, it transpired that at the very beginning need assessment is carried out through community self survey. This includes identification of targets, high risk groups, realistic estimation of resources and services. Thereafter availability of finances/loans/grants are ascertained by exploring prospects from NABARD, banks, etc. After preparation of need based credit plans, a training plan or manual is developed for the functionaries and service providers.

The next visit in our itinerary was a village in the interiors away from the state highway and through a partly kutcha road. The village was recently raided by the naxals and we were advised to return to the highway by four in the afternoon. Here we were introduced to a group the members of which were into pickle making and bottling. As bamboo was natural vegetation in these parts and mango groves also aplenty, there was no dearth of resources. The mustard oil was extracted from the locally grown mustard plants. However, the impediments to their enthusiasm were two fold- proper packaging and marketing of the products. Being considerably away from motorable road, the market linkages were very poor. Here it was observed that the women folk belonging to Christian community and who have received higher education were active and vocal participants.

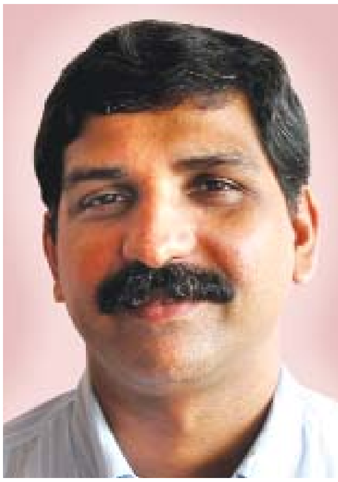
Although the schemes are operational in the eastern and central parts of the state and being monitored at intervals, the western region contiguous to Chattisgarh and Madhya Pradesh which is densely forested and hilly is yet to reap the benefit of the scheme. Apart from government agencies, the NGO sector is in full swing but commitment to the cause must be the ingredient for success. In this sphere, Xavier Institute of Social Service, Ranchi is working tirelessly in imparting relevant training and skill to the NGOs, workers and members of SHGs on sustainable micro credit plans.

Microfinance network and rise of social entrepreneurship amongst the poor women have undoubtedly led to better food security and self reliance but lack of all weather accessible roads, power, telecom facilities, woefully inadequate basic education, skill sets and health care are the major set backs to the projects. ■

The writer hails from Jharkhand and is passionate about issues of social concerns. She has to her credit a number of articles published in dailies and magazines of the region. A management graduate she is now working in a government agency.

'RECESSION HAS NOT AFFECTED US AS WE DEPEND MORE ON DOMESTIC PSUs'

Evangelical Social Action Forum (ESAF) was established in 1992 as a christian response to the social and economic needs of people. ESAF stands for sustainable wholistic transformation of the poor, and marginalised for a just and society. ***K Paul Thomas****, Managing Director of ESAF Microfinance and Investments shares his thoughts with* ***FE.***



What services does MFIs provide to reduce poverty? And how?

From the ESAF point of view we organise poor people into groups and '*sangams*' to identify their problems in an efficient manner. We give them loans for income generation and consumption and encourage their savings habit through their *sangam* and Apex federation. Savings habit among the poor naturally supports the economy and helps in alleviating poverty. The positive economic features thus entertain social development. As a result they start thinking about education, good homes, healthy food habits etc. We also provide them Business Development Services by imparting entrepreneurship training, skill training and giving them marketing support through our retail outlets. This helps them to increase their income level and collective bargaining capacity. Moreover, the training imparted by us helps them in developing their leadership skills.

How can MFIs be made more affordable to the poor?

The interest rate can be reduced, if there is an increase in outreach. More outreach means more business volume. In another way, interest rates can be reduced if the government allows the MFIs to accept deposits from their borrowers, which will help them to access low cost funds. Since the role of MFIs in enhancing human capital is considerable, its imperative for the authorities concerned to come up with a feasible mechanism that makes them more affordable to the poor. Such a move will help MFIs to add to their clientèle more credit worthy clients and erase concerns about poverty.

What should be the guidelines for the functioning of MFIs?

At present Microfinance Non Banking Financial Companies are working under the guidelines of RBI. *Saadhan*— an Association of MFIs in India has published a code of conduct for its member MFIs. But NGO MFI are not controlled by any regulatory authorities. So it is important that Microfinance Regulatory bill, which is hanging fire from 2007, should be passed at the earliest. All MFIs should be regulated by this Bill. Moreover, NBFC MFIs should be given a separate status by the RBI. Also the RBI should take steps in allowing a lower Capital Adequacy Ratio to MFIs to increase their liquidity.

What should be the role of the banks in the proper functioning of the MFIs?

The commitment of commercial banks to micro lending has been fragile and not based solidly in its institutional mission. This situation should be changed. Of course, the main role of the banks is to provide adequate funds on time, to meet the requirements of MFIs. They should also bring to an end reduce the red tapes involved in sanctioning of loans. Faster procedures help the MFIs to meet the client requirements faster. This helps in improving the business volume. Hence, the poor clients will be the ultimate beneficiary. Banks need to service the micro-enterprise sector – through financial service innovations that permit a cost-effective analysis of creditworthiness, monitoring of a large number of relatively poor clients, and the adoption of effective collateral substitutes.

In the General Budget 09, Microfinance is emerging as an

influential and high potential industry. Please comment.
Yes, the Budget 2009 envisioned the same and praised the role of microfinance as an instrument of socio-economic change and development. In the next five years, the government has ambitious plans to enroll at least half of the rural women into the network of self-help group (SHG) movement, besides increasing the corpus funding of the *Rashtriya Mahila Kosh* to Rs 500 crore. The Budget also announced further relaxation of rules for opening small and rural banking facilities by Scheduled Commercial Banks. Other welcome plans from an MFI point of view in the Budget are strengthening the mechanisms for inclusive growth for creating about 12 million new work opportunities per year, reducing the proportion of people living below poverty line to less than half from current levels by 2014 and to easing the delivery mechanism for primary health care facilities with a view to improve the preventive and curative health care in the country. Another important initiative is the restructuring of *Swarna Jayanthi Gran Swarosgar Yojana* (SGSY) into National Livelihood Mission, This will give microfinance sector a new direction.

What is the role of the government in the upliftment of this sector?
Now the government has accepted the significance of microfinance through the Budget, so it is obligatory for them to pass the Microfinance Sector Development and Regulation bill at the earliest. Through RBI, SIDBI and NABARD the government can provide refinancing and infrastructure support to MFIs. Lack of proper infrastructure support is a cause of concern for most MFIs. The government has reiterated their emphasis on upliftment of women in every sphere of life, this surely supports the cause for which MFIs stand.

How can financial inclusion help in the empowerment of women?
The best possible way to expand the efforts of financial inclusion is through the empowerment of women. When women starts earning independently they can improve the well-being of their household and educate the children. Sufficient finance also helps them to maintain the health of their children. Moreover, Self Help Groups boost their social networks and community participation. This gives them confidence to survive and express their opinions clearly. Access to finance and assets improve the status of women at home and society. The fact that some of our Sangam leaders grew in ranks to become community leaders at the block/panchayat levels bore testimony to my claims.

In the context of microlending what is the scenario now in the wake of recession?
In India economy at the grass root level are still vibrant and MFIs mostly deal with these groups. Hence the repayments are not affected, but the flow of money into the sector from International banks got slightly affected due to recession. The fact that we depend more on domestic PSU banks also reduced the effect of recession on MFIs. But still there is no room for complacency.

What are your suggestions to the finance ministry to make MFIs more profitable? Should they be given more tax concessions.
Of course tax concessions are required for MFIs to make more profits. Considering the key role being played by MFIs to balance the economy interest subsidies should be provided. Also Debt Relief Schemes applicable to commercial banks should be made applicable to MFIs as well.

Microfinance is the new buzz in mutual fund industry in India. How can it set a new dimension to the industry?
The Mutual Fund companies can utilize the clientèle of MF companies. Apart from that mutual fund providers should come with some innovative Systematic Investment Plan schemes which is compatible with the income level of the poor. This allows the poor to enjoy the advantages of investing in capital market. ■

VISION OF AN INCLUSIVE INDIA

We need to create the right technology which is user-friendly and extremely easy to use for a layman and available at the most affordable prices

DEWANG NERALLA

India is a nation of over a billion people, 70% of which resides in the rural area. We are not able to provide even basic banking facilities to more than 50% of the country's population. Growth pillars for strong economy are, education, healthcare, infrastructure and banking (which includes power also). When we talk about banking facilities, it does not mean just opening bank accounts, but the ability to provide credit to those hundreds and thousands of small entrepreneurs, who want to contribute in their own simple ways from riding their own cycle *rickshaws* to using efficient technologies for farming on their small farms to increase their produce. We need to create the inclusive growth whereby lives and livelihoods of these same people can undergo a sea-change by providing and creating markets for them and their goods. Once again, there would be non-believers who would say this is an ambitious and no realizable goal, but the essence of any growing economy lies in the ability to improve the livestock of practically the entire population so that it drives consumption and hence growth.

Vision of connecting every individual in this country to an electronic payment highway for performing transactions will bring the inclusive growth and create the financially included India. The overall hypothesis stems from the fact that a connected India means an included India, where every person in this great nation has access to the same/similar services as every other person does. At the heart of this is the payments ecosystem. This highway, carries not only the transactions for purchase of goods, but also carries the small transactions such as deposits, withdrawals, remittances etc.

An idea for creating electronic payment highway which connects not only the large metropolises and cities, but also the hinterlands in one homogenous ecosystem, where there are multiple service providers and multiple consumers of these services. We are still at very infant stage in this sector, the technology and system which we are in is at its basics and we have the great opportunity for creating a well established payments system in this country.

The foundation stone has already been put in place by the regulators as well as the banks. However, there are other areas which can really catapult growth and take us to the next level. The basic tenets still would revolve around the fundamental principles i.e. Creation of a strong and solid infrastructure, innovation on services to be offered or provided, using technology to create differentiation and finally, the most important capacity building to reach scale and ensure services availability. This will definitely help us bridge any kind of an urban-rural divides and make the country feel like one village.

To achieve this, biggest challenge lies in creating services at the rural level at the most affordable prices. This will not only provide the banking a facility, but also other services as well as well and that will be the way to grow. Banks have been questioning the viability of the business correspondent model. We need to create the right technology which is user-friendly and extremely easy to use for a layman.

We have to create innovative solutions so as to provide access of mass services to the villagers. These services are widely available, and provide the single window service point which is capable of serving the customer with bare minimum per transaction cost. This will lead to create the base for reaching the citizens of this nation with bundle of services which is available at single point.

Today, we are fortunate to the telecom boom that has resulted in a strong data infrastructure across the country. We have seen talks of broadband connectivity across the country at affordable prices. Connectivity, although a challenge at some places in the country, has been assumed to be there. We have better electronic infrastructure as compared to the physical infrastructure and definitely this should be utilized to its fullest extent and not only for voice telephony.

Technology is the key enabler and differentiator in accomplishing this. When we look at technology, the scope for innovation is immense — right from biometric based systems to mobile based applications to simple Interactive Voice Response based applications. But the key element to think here is that it is not a one-size-that-fits-all approach. A different approach has to be taken to individual situations, like for e.g. using biometrics in providing certain services will definitely be overkill when the same can be provided through an application on a phone. However, the reality is without using technology, ability to reach and churn out different services will become a challenge

We need to create this technological differentiation which will help in spread of this infrastructure till every single town & village, with an opportunity to generate employment. This will not only give the services to the mass but will open a gateway for service providers to reach these areas with their product and service offerings. The technological differentiation will help in creating the cost effective model to accept this as a profitable business solution.

After having technology in place the critical requirement will be how to reach these areas and creating the availability of services in this market. Also this will tend to provide a base for major players to link themselves with it to reach the deep rural mass. Spread of service infrastructure will lead to create the availability in market, by which access to villagers will increase towards various facilities. This service availability along with widespread infrastructure will provide the backbone to economy by reaching the mass in a very formal and structured manner.

This model, enunciated here, will not only create the opportunity for mass employment but also will establish the touch points in those areas which are secluded. Reach to these secluded areas will in-turn provide the access to those markets which are not yet explored, but has the great potential in it. This will create opportunity for everyone, opportunity which can create the differentiation, this will help our economy to include the secluded markets which will lead to overall growth of business environment.

Inclusive growth can be created by not only including the society or mass into a well established financial system, but an overall economic growth spiral where strong entrepreneurial culture breeds as well as brings the socially neglected sections at par with rest of the country. This will achieve a true democracy, when one and all have equal access to the all the facilities. It is infrastructure, service level innovations, using the right technology and creating scale that will ensure that we have been able to bring in the people into a common fold.

Availability of connectivity and right technology will help unfold the growth trajectory with a momentum as we would be able to scale much faster.

Employment opportunities will also be created to establish this network, as reach increases the more and more number of people will start associating with it hence providing the growth to rural areas. ■

The writer is director, Atom Technologies

RBI TO ENSURE BENIGN, STABLE INTEREST RATES: CHAKRABARTY

Mumbai: Ahead of the quarterly review of its annual monetary policy, the Reserve Bank today said that it would ensure a benign and stable interest rate regime to safeguard the common man's interest and ensure adequate liquidity in the system.

"The RBI's effort is to ensure a benign and stable interest rate regime ... it is for ensuring adequate liquidity in the system. We are trying to keep interest rates benign," Reserve Bank Deputy Governor K C Chakrabarty said.

In the face of high competition in industry, banks, particularly those in the private sector, will have to lower lending rates in the period ahead, Chakrabarty said on the sidelines of the Skoch BFSI summit. Individual conditions of banks and the inflationary situation will determine whether banks will cut lending rates, Chakrabarty said, adding that if the cost of funds remains high in the system, banks tend to hike their lending rates.

If banks' cost of funds goes up, they will increase the (lending) rates... if they have three times of credit demand and they are unable to mobilise funds, they have to pay high rates on deposits, Chakrabarty said.

On credit growth, the Deputy Governor said that credit outflow is likely to pick up in the coming quarters as there are signs of recovery in the economy. The central bank will ensure adequate liquidity in the banking system, he said.

As part of the ongoing efforts to promote financial inclusion in the country, the apex bank plans to introduce new guidelines on the business correspondent (BC) model in the next one month, Chakrabarty said.

"(At present), the BC model is too restrictive. The RBI is examining the BC model to make it more operative. We expect to come out with our guidelines in the next one month," Chakrabarty said.

The Reserve Bank is scheduled to announce the quarterly review of its annual monetary policy on July 28. ■

[REPORT]

CRACKS AND FISSURES IN MICROFINANCE: SURVEY

Slowdown puts microfinance industry to stress test, says survey. It also highlights cracks and fissures that have surfaced due to global economic crisis

FE BUREAU

The resilience of the global microfinance industry will be put to the test by the economic crisis, according to a new survey of the risks to the business, Microfinance Banana Skins 2009. Far from being insulated from the economic mainstream as traditionally thought, microfinance could face a fall in growth and funding because of the global recession and declining investor confidence.

This will present the industry with its first major stress test since it emerged in recent decades as a fast-growing provider of small-scale financial services to the world's poor.

The survey, published by the CSFI and sponsored by Citi Foundation and the Consultative Group to Assist the Poor (CGAP) and supported by the Council of Microfinance Equity Funds (CMEF), was designed to identify and rank the main risks, or "Banana Skins" facing the industry at a time of economic crisis and change. It reflects the views of more than 400 practitioners, investors, regulators and analysts in 82 countries.

The survey shows that the greatest risks all stem from the crisis: a surge in bad loans, shortages of liquidity and funding, and declining profitability. Other top concerns surround the ability of microfinance institutions (MFIs) to manage their way through the crisis because of weaknesses in management and corporate governance.

The survey updates a previous poll carried out in early 2008 at the beginning of the crisis, and shows how sharply risk perceptions have changed since then. Most of the risks which are now seen as threats to the sector's prospects, such as the world recession and the credit crunch, were considered negligible only 18 months ago.

David Lascelles, survey editor, said: "These findings turn the earlier survey on its head. Last year's result reflected the traditional view that microfinance operates in a world of its own with abundant funding and loyal customers. But the crisis has shown that it is also exposed to the shocks of the 'real economy'".

Bob Annibale, global director of Citi Microfinance, said: "This year's report clearly illustrates a dramatic shift in perceived risks within microfinance with credit and liquidity issues rising to the top. MFI clients are being challenged by rising food and energy prices and declining remittance flows. However, strong stakeholder support has ensured that where funding and performance problems exist, these are largely being addressed. Financial inclusion continues albeit with realistic growth expectations, continued sustainable scaling and investment in the sector."

Elizabeth Littlefield, CGAP's chief executive officer, said: "This year's Banana Skins survey highlights cracks and fissures in microfinance that have surfaced with the global economic crisis. But, the sector is basically healthy with-strong fundamentals and a solid, reliable and growing client base. Tackling immediate concerns about credit risk, liquidity is important, but remaining focused on longer term issues of management bench strength, governance, and asset and liability management capacity remains crucial for the future."

The Banana Skins report says that the crisis is global in its impact. Every one of the 82 countries participating in the survey reported that financial and economic conditions had worsened, and were affecting local MFIs, though with regional variations. The responses also showed a strong link between all the major risks, with economic recession potentially hitting growth and profitability, in turn affecting the confidence of investors in microfinance, creating funding difficulties which affect the viability of MFIs. There is a risk that some MFIs will fail.

There is also strong concern that the recession will increase political interference in the industry as governments try to control the availability and cost of microlending, or even encourage borrowers to default. The risk of losing depositor confidence was not seen as high.

The 45-page report provides a commentary on each of the 25 risks that were identified, and breaks down responses by type and region, providing a detailed view of the concerns by geography and different classes of respondent.■