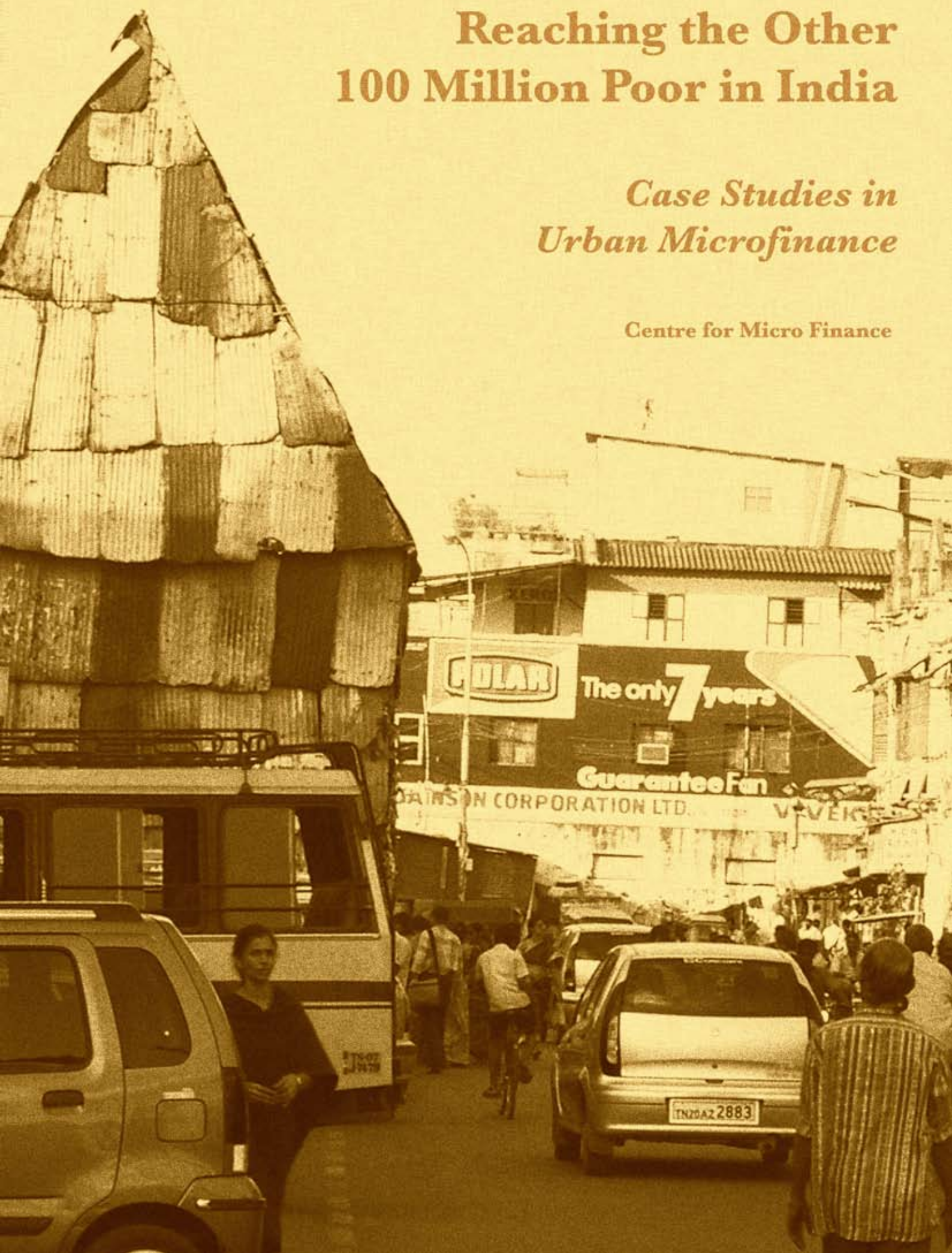


Reaching the Other 100 Million Poor in India

Case Studies in Urban Microfinance

Centre for Micro Finance



Acknowledgements

Reaching the Other 100 Million Poor in India: Case Studies in Urban Microfinance is the result of a series of independent studies conducted by the *Centre for Micro Finance* (CMF) with six prominent microfinance institutions operating in urban areas. The purpose of the case studies is to identify innovative practices among these institutions, including strategies used for broad basing their clients, examining the array of financial services offered to the urban poor, and discussing the challenges and opportunities that remain in urban microfinance. The case studies presented in the following pages provide an in-depth look at each institution and how these players will integrate a strategic approach to business and economic development going forward. The authors wish to thank *Ujjivan*, *SEWA Bank*, *Working Women's Forum* (WWF), *Indian Bank's Microsate Branch*, *Village Welfare Society* (VWS), and *Sharada's Women's Association for Weaker Sections* (SWAWS) for their kind cooperation and participation in this study. In addition, CMF wishes to thank *CARE India* for publishing these case studies.

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EXECUTIVE SUMMARY

An Introduction to Urban Microfinance



By Sudha Krishnan

Overview

An increasing number of microfinance institutions (MFIs) have illustrated that even by extending loans for as little as \$100 can help the poor in many ways. These loans help increase income and assets, increase the amount of schooling children receive, and contribute to improved health. Yet, within India, microfinance activities in cities remain limited. In contrast with the development of the sector in rural areas, various challenges in the urban context have resulted in a near absence of urban MFIs; there are a limited number of practitioners who have been able to offer microfinance while building client loyalty, mitigating risk, and responding to a variety of needs of a diverse urban population. However, if microfinance is to continue expanding outreach and impact on the nation's poor, the ability for institutions to overcome current constraints to offering financial services to the urban poor must be examined and addressed.

The Centre for Micro Finance (CMF) conducted studies of six MFIs to better understand the reasons behind the continued low outreach to the urban poor and to help define strategies that can improve access to urban financial services. Ujjivan, SEWA Bank, Working Women's Forum (WWF), Indian Bank's Microsate Branch, Village Welfare Society (VWS), and Sharada's Women's Association for Weaker Sections (SWAWS) were all selected as participants in the series because, as institutions based in cities throughout India with a variety of products, demand, and operating models, each provides an organizational and geographic contrast between start-ups and more well-established MFIs.

The Urban Microfinance Model

India's urban market—approximately 28% of India's total population—consists of 280 million people. This market is expected to grow to over 600 million by year 2030, with the urban poor as a significant portion of this growth.¹ The success in rural areas in providing services such as facilities to deposit savings and access to credit for production, consumption, and emergencies is well known, but these financial services have yet to be sufficiently offered in the urban space. According to the 2001 census of India, the urban poor comprise 35 to 40% of the population, but only 0.01% of them have banking relationships. This can be difficult to comprehend, given that the urban market contributes to 62% of India's GDP. Approximately 89% of workers in the informal economy are women whose contributions appear invisible to state planners and policymakers. Occupations for India's poor vary from self-employed vegetable vendors and small shop owners to salaried employees working as maids, cooks, and factory-workers. In spite of the large network of bank branches and ATMs that exist in cities, many of the poor find their financial needs largely unmet. Reasons such as a lack of documentation, regular incomes, and a low degree of comfort in visiting banks for transactions help explain why the urban poor feel forced to rely on informal credit from moneylenders who demand interest as high as 10% per day from borrowers. In fact, the lack of access to basic services and productive inputs, trading spaces for vendors, and skill and livelihood training further pushes the poor into poverty, in spite of their status as an essential component of the country's workforce. Providing financial services in the urban context can be a tremendous opportunity given the existing demand and expanding market.

Providing urban micro financial services can be a tremendous opportunity, given the existing demand and expanding market. At the same time, there are challenges unique to the urban environment that

¹ Supriti, Sharon, and M Barnhardt, Ramesh Ramanathan.

microfinance practitioners and policy-makers must consider. Financial service providers operating in cities are faced with a highly competitive environment among the organized and unorganized banking sectors. Customers will take up products and services based on price and the quality of service. Additionally, urban clients are more likely to come from various parts of the country and social groups, possibly impacting the quality of social networks formed within self-help groups as well as restricting the ability of an MFI to gather information on clients. Other difficulties in catering to the urban space include a lack of requisite documentation, irregular incomes, and migration among workers to and from rural areas. For an MFI seeking to catalyze microfinance in India's cities, finding innovative ways of overcoming these challenges is essential to delivering financial services to this market.

This series of case studies demonstrates that progressive institutions have increasingly recognized microfinance's business potential—not only within the context of social responsibility—and have taken steps to establish urban operations. Yet the focus on social responsibility and development can only be sustained with a commitment from MFIs only for so long. Eventually, scalability and support from the public sector through a favorable legal and regulatory framework will become an issue if resources are going to be made available for urban MFIs to expand and achieve significant outreach and volume to make their contributions to the development of the urban poor meaningful.

Urban Microfinance Operations

MODELS

An important feature of microfinance in India is the success of various operating models. From the imported model of joint liability groups (JLGs) to domestically developed self-help groups (SHGs), many urban MFIs have opted to implement activities through peer-based lending. As explained below, some practitioners have even chosen to work as cooperatives, thereby not only providing members access to financial services but preparing them to understand and take part in household and decision-making.

The JLG model pioneered in Bangladesh is based on the Grameen Bank's model, which involves issuing group credit with joint liability. According to the National Bank for Agriculture and Rural Development (NABARD), the main purpose of JLGs is to facilitate mutual guaranteeing and execution of a joint liability agreement making members jointly liable for interest payments and loan repayments obtained from a MFI.² JLG management is intended to be simple, with little or no financial administration within the group. The benefits of this model include reduced transaction costs for both lenders and borrowers. MFIs gain by having to handle only a single group account instead of a large number of small individual accounts; borrowers benefit by reducing travel expenses to and from local branches in addition to lessening the amount of time needed to complete paperwork to obtain a loan.

From the experiences of Ujjivan, SWAWS, and VWS, the MFI—not a partner NGO—directly interacts with clients; a credit officer collects savings, and sanctions loans to the group as a whole. Ujjivan, a Bangalore-based MFI piloting an urban model over an 18-month period, has taken the initiative to develop its own solutions for poor working women by not only operating as a Grameen replicator but also by lending to SHGs. Since it started operations in November 2005, Ujjivan has hired over 40 field staff to service over 1,600 members, of whom 786 are outstanding borrowers, with a portfolio of Rs. 3,664,206. Ujjivan aims to expand its JLG business in 12 branches across Bangalore

to reach a customer base of 25,000. Additionally, given that the company has been approached by an increasing number of NGOs involved in SHG formation, Ujjivan expects to substantially develop this network as it grows in Bangalore and other cities. What sets Ujjivan apart is its realization that, as loan sizes increase to meet urban women's increasing demand for housing or children's higher education, the group guarantee mechanism may no longer apply since women will refuse to guarantee larger loan sizes. With this expectation, Ujjivan's executive team is keeping in mind that the need for individual loans will naturally arise as clients improve their situations over time.



SWAWS was established six years earlier than Ujjivan, and given their historical focus on providing poor women with education funding, microfinance was initially relatively unfamiliar. As a result, SWAWS began working through the tried-and-tested Grameen Bank methodology, from village surveys and projection meetings to group formation and compulsory group training (CGT). However, unlike the time-delayed disbursements typical of the Grameen Bank model in which the neediest individuals receive credit before other group members, according to a breakdown of 2:2:1, SWAWS disburses loans to all group members simultaneously.³ Given the increasingly competitive environment for microfinance players in the state of Andhra Pradesh, where institutions have lured away each others' clients through a variety of controversial tactics, SWAWS has chosen to deviate from this traditional aspect of Grameen's distributional procedures in order to both retain existing customers and attract new clients with immediate gratification through access to credit.

Another MFI making strides in the socioeconomic development of the poor since 1995 is VWS. VWS has acquired approximately 60,000 customers in West Bengal. The organization's focus on the disadvantaged came about when its promoters began providing aids and grants to local families devastated by flooding in villages. VWS now provides microfinance services to clients through 18 branch offices, with a combined gross outstanding portfolio of approximately 16 crores.⁴ Within the suburbs of Kolkata, VWS is emerging as a rapidly-expanding yet relatively low-profile microfinance society. The promoters' decision to use JLGs as a distribution channel stems from the success of the model in terms of loan recovery; as a result, the organization maintains a low default rate of approximately 2%. Interestingly, however, while VWS closely adheres to Grameen best practices, they refer to their groups as SHGs. The reason for using this reverse terminology is based on the fact that field staff has found clients understand the concept of peer-lending more easily when groups are referred to as SHGs; this is a well-known phrase in many communities. VWS' emphasis continues to be internally developing its groups, as Grameen does, and maintaining high quality service for clients. VWS' promoters' recent decision to pursue a strategy of vertical expansion by penetrating deeper in areas

³ 2:2:1 means that, ideally, the first 2 neediest members receive loans, who are then under pressure from fellow members to repay on time. If either one of the first two or both borrowers default, the other members of the group forfeit their chances of receiving a loan. Only after the third and fourth members have started repaying, in addition to the first and second individuals, will the final member, who is often the group leader, receive a loan.

⁴ A crore is an Indian unit of measure, where one crore is equal to ten million rupees.

GROUP VS. INDIVIDUAL LENDING

The commonly stated benefits of group lending are that the problems of adverse selection (selecting risky borrowers), moral hazard (inability to monitor), and enforcement (if default is a possibility) are addressed by the group mechanism. At the same time, however, there remains doubt about the roles and costs that group lending has in serving the poor. An important challenge is that monitoring and meetings can be inconvenient and costly, particularly in terms of time opportunity cost for urban clients, many of whom are salaried workers. With regards to the urban space, group continuity can also be an issue due to frequent periods of migration to and from rural villages. Because of these potential constraints on delivering financial services to the urban poor, some MFIs do not view the group-lending model as scaleable in cities.

As a result, organizations, including many of those included in this series, want to expand credit products to include individual loans for exceptional clients who have created strong track-records with the lending institution, particularly since group lending does not offer sufficient room for flexibility when compared with individual lending. As part of this product diversification, MFIs can attract potential new clients and avoid losing customers to competitors. The benefits of this approach are that there

can be an improvement in the quality and price of financial services offered to the poor in addition to greater efficiency within an institution. While lenders to groups can be removed from individual clients, individual lenders must be responsible for the screening, monitoring, and enforcement of loans to each specific customer.¹ SEWA Bank is one institution that has devised solutions to these problems by requiring clients to maintain regular savings for at least six months to illustrate their creditworthiness, increasing loan sizes from cycle to cycle to first evaluate a client's credit history, relying on social networks to manage risks on individual loans through guarantors and leaders in local communities,² and ensuring that the Bank's field staff have daily interactions with clients to monitor their financial situations.

MFIs that offer both group and individual loans must be aware of differences in the products, processes, and organizational implications of product diversification. For example, many consider individual lending as best suited to enterprises. The result of such product diversification is a variety of approaches to delivering financial services to the poor.

1 Dellien, H., Burnett, J., Gincher, A., & Lynch, E.

2 As described in the SEWA case study, a potential borrower must find two guarantors (including a family member) to co-sign a loan.

where VWS SHGs already exist was made with an eye toward scalability and sustainability.

Banks have found this joint-liability approach to be particularly well suited to lending to the poor; the joint liability within the group functions as a kind of social collateral, which effectively minimizes risks for the lending institution. Since the group as a whole is responsible for repayments, members support each other to keep solvent so that they can all hold on to the opportunity to receive another, larger loan. The group mechanism serves as a way of working around information problem banks face with the poor, since SHG group members often know each other well. Prospective clients are thus screened using local information at low cost and the transaction costs involved in loan appraisal are considerable lessened or eliminated. According to some of the top MFIs in the country, many of whom lend to SHGs, another very important feature of the model is that it works within the parameters of India's complex legal and regulatory framework.

Given the success of this domestic approach, Indian Bank has opted to integrate microfinance into branch operations by establishing Microsate to carry out lending activities through SHGs. Indian Bank was established nearly 100 years ago with an orientation to developing domestic industries. Its historical exposure to microfinance through banking services to farmers and agricultural product processors gave the Bank an early competitive advantage. Indian Bank opened Microsate in 2005 to manage its microfinance business, which continued to set the institution apart as a pioneer by doing something previously unheard, unseen, and unpracticed in the sector. For Indian Bank, microfinance does not exist as a separate division within the Bank; rather, credit to SHGs is offered through Indian Bank's typical branch operations and the goal is to replicate Microsate's success by opening additional Microsate branches in medium-sized cities across South India.

In addition to those institutions following only the Grameen or SHG models of microfinance, there are two leading MFIs, in particular, that stand apart by demonstrating that cooperative banking is also a viable approach to microfinance.

In 1978, Chennai-based Working Women's Forum was developed to help women come together, identify similarities in their struggles—such as high-cost debt—and help each other do better, particularly with accessing previously unavailable financial services. WWF's goal was to help women organize themselves into groups by occupation, ranging from vendors to traders, and escape the cycle of debt entrapment. Mainstream financial institutions, however, failed to provide credit to WWF members in an enthusiastic or timely manner, leading to the formation of the organization's own Working Women's Cooperative Society to help women save and access credit. After attaining over 2,500 members in Chennai, the Society re-registered as the Indian Cooperative Network of Women (ICNW) in order to have the option and capacity to work across the country. It is important to note that, as a cooperative, ICNW provides a variety of workshops and classes to empower women in various aspects of household and community decision-making in addition to making affordable financial services available.

Shri Mahila SEWA Sahakari Bank's (SEWA Bank) story is similar to WWF's. SEWA Bank's humble start began with the motivation to increase value to its membership base of poor informal sector women workers in Ahmedabad when the formal banking sector failed to respond to their needs. In 1974, 4,000 SEWA members came together to contribute ten rupees each and raised sufficient capital to establish SEWA Bank as a cooperative under the dual control of the Reserve Bank of India and the Government of Gujarat. Since then, SEWA members have not only benefited from individual savings and lending products and services but from their role as shareholders as well. The organization's unique model allows each SEWA Bank account holder to buy shares in the Bank and, in order to borrow from the Bank, clients must be shareholders. Each shareholder represents one vote; this enforces a democratic form of governance and a system of equality where more affluent and poorer members have an equal voice. Since members, in effect, own the Bank and run it themselves through the Board, SEWA's model is financially sound and viable, while also earning surpluses and returns for its shareholders. Overall, its cooperative structure and democratic form help make certain that the Bank grows with its members and has motivated the development of a fully independent microfinance unit that seeks to adhere to SEWA's guiding mission—enabling poor self-employed women to become economically strong, safe, sound, and self-reliant.

It is clear from the array of microfinance models in India that no single model is appropriate for all environments, especially in the urban context where a variety of factors, from lacking documentation to frequent migration, must be considered. As noted by Von Pischke, Schneider, and Zander, “retaining and even supporting diversity is important...successful models cannot simply be replicated in social and economic environments that may differ greatly. Thus, no single model offers a panacea.”⁵ None of these approaches is static; the previously mentioned organizations recognize that innovative products and services developed using a customer-led approach are essential to serving the urban poor better.

PRODUCTS / DEMAND

After completing extensive market research, urban MFIs have developed products and services based on the financial needs of urban working poor women. The typical product mix includes savings accounts, loans, insurance, and credit-plus services ranging from vocational training to marketing assistance for entrepreneurs. Indian Bank's Microsate Branch, for example, has even taken into consideration its clients' previous lack of comfort in visiting bank branches and designed its facilities

5 Von Pischke, J.D., H. Schneider, and R. Zander.

in such a way that women feel at ease during the loan process by providing conference rooms for meetings, a well-stocked library, and a dining hall that visitors can use for having lunch. The MFIs profiled in this series of case studies have realized that offering limited, standardized products in an attempt to reduce information required from clients and minimize operating costs results in increased dropouts, lower take-up and reduced competitiveness. To address this, MFIs—particularly in the urban context—are experimenting with more flexible products to meet the needs of their clients based on actual client feedback instead of solely relying on assumed projections. Urban MFIs aim to both maintain existing clients and attract new ones, especially in areas where competition is becoming increasingly noticeable. Urban MFIs which offer a variety of products benefit by being able to offer good client services, increased outreach, diversified portfolios, and reduced overall lending-risks. This series illustrates how each of these organizations tailors and continuously refines products and services to specific markets, a smart success strategy in India's rapidly changing cities.

COMPETITION

During the last ten years the number of urban MFIs has increased remarkably, especially in Hyderabad, Andhra Pradesh—the capital city of microfinance in India. Although the proliferation of institutions generally (1) improves the quality of service offered, (2) drives innovation, and (3) forces institutions to examine and re-examine current products and processes, there can be negative consequences for those institutions facing stiff competition and market saturation in some areas, such as the crisis in Andhra Pradesh as described in the SWAWS case study. Nevertheless, MFIs, particularly those that have always operated or recently expanded in the urban space, are also finding that India's cities offer significant business opportunities. As a result, it is worth noting that there are millions of individuals who are either not served or underserved by mainstream financial institutions. A refreshing perspective among many practitioners is that the microfinance market is large enough for multiple players, and each organization has a responsibility to further develop the market in order to improve the urban poor's access to financial services as quickly and effectively as possible.



By concentrating its core competency, ranging from product diversification to credit-plus activities, each institution can carve out its own niche in the market and develop a broad and loyal customer base. In fact, since the crisis, learning to concentrate on a customer-led approach and learning to pay closer attention to clients' needs may have been the best lesson learned for competing with other MFIs. All MFIs should emphasize providing high-quality service, particularly since customers pay for high-quality products, while devising new ways to conduct business as efficiently as possible.

Success is not assured; some MFIs have attempted to serve the urban market and failed because they did not understand their clients or moved too hastily. Those institutions that have overcome

the challenges unique to the cities and the urban poor offer lessons to those now considering this market.

KEY LESSONS AND OPPORTUNITIES

<i>KEY LESSONS IN URBAN MICROFINANCE</i>		
Services	Resources/Logistics	Management
» Successful product diversification	» Hiring local staff, particularly female credit officers	» Effectively monitoring management information systems
» Adapting distribution models	» Solving distributional difficulties, such as space limitations	» Anticipating client needs through focus group discussions and market research
	» Sufficiently motivating staff with incentives and training	» Expanding through existing operations and deepening penetration in urban areas

Taking lessons from the experiences of the MFIs in this series, it is clear that innovative thinking was necessary to overcome the challenges posed by the urban market. To carry out their missions of interacting with low- and medium-income customers in urban areas and offering small loans, the organizations faced a number of constraints. The following describe the key points and how each institution intends to further leverage its success by building on these factors:

- » **Tracking loan usage/meeting the life-cycle needs of salaried women:** The case of Ujjivan, in particular, draws attention to the fact that, as loan amounts increase to meet urban women's needs including housing or schooling, peer-based lending models may not hold, since a woman's friends and neighbors may be unwilling to guarantee higher loan sizes. Thus, when this ceiling is reached, clients will demand individual loans to meet their increasing needs, particularly as their situations improve over time. Ujjivan created a separate product exclusively for family needs so that salaried women no longer had to borrow for household use under the pretense of working capital; this has helped the company keep track of the needs and uses of credit by their clients.

While emphasizing that laying the groundwork for individual lending is critical, the importance of catering to salaried women—a substantial portion of the urban poor working in both the informal and formal sectors—cannot be overlooked. SEWA Bank has long been attentive to the diverse needs of its members and has diversified its product offerings to include all occupational sub-groups (home-based workers, factory workers, and vendors, for example) as well as meet the life-cycle needs of a woman, from education to marriage to pensions. In fact, the Bank's 'Sanjivani loan,' which is similar to an unsecured loan, was initially designed to help thousands of textile mill workers who lost their jobs when the industry collapsed in Gujarat by providing them with affordable loans for either household use or to establish a business. SEWA also strives to ease the burden on salaried women by developing products such as accounts for marriage, education, and gifts that help women prepare for important life-cycle events.

Ultimately, being aware of clients' needs and loan utilizations—as well as differentiating among clients—is necessary in the urban space. In the urban market, the array of occupations and socioeconomic conditions requires both anticipating future needs of women ready to graduate from group-lending as well as an increasingly diversified range of products.

- » **Overcoming space constraints:** Since space is often a premium in India's cities, finding a sufficiently large gathering place for group meeting in the urban environment can be challenging. In the typical JLG model, for example, ten groups of women consisting of five members each must be accommodated in a location that is as convenient as possible to as many members as possible; this is important because working women tend to have less free time than men do and may be less able to travel. To overcome this difficulty, Ujjivan and WWF use a non-traditional approach and holds meetings in public spaces—such as local schools, health centers, and community centers—that provide space by donation or charging rental fees. WWF, in particular, organizes interactive, public meetings at local temples, churches, and mosques describing its methodology and products before forming groups. As urban MFIs continue expanding, space constraints become a bigger issue; following the examples set by Ujjivan and WWF provides a possible solution.
- » **Focusing on field staff:** Career paths for field staff and their financial and professional satisfaction affect the image of microfinance within a community. Currently, the goal is to hire and retain field staff in the urban space where demanding work of this nature is not particularly glamorous when compared with office jobs, for example. As evident through the case studies, those working in the microfinance field possess a genuine desire to help the poor access financial services and are also sensitive to clients' conditions. Given that young men in the cities appear more reluctant to work as field officers, Ujjivan has hired female field staff not only to meet staffing needs but also to develop an even further supportive environment for women. Similarly, SWAWS has found qualified individuals to work in the field within its customer base. One female staff member, for example, was a client and also the leader of her center who showed great promise in her ability to handle groups. Today, she oversees approximately 20% of the centers managed by her local branch.

In addition to creative recruitment, most MFIs increasingly use staff incentive schemes consisting of a flat salary plus cash incentives to encourage optimal performance of employees. Given that field staff has a critical impact on an organization's performance, adopting an appropriate system of financial rewards, such as bonuses for forming a certain number of groups or achieving a specific recovery rate, is key to ensuring a solid client relationship and success of product take-up. Many MFIs now offer an incentive package that gives credit officers a flat salary plus incentives. Ujjivan, for example, plans to offer an employee stock option plan for all staff to provide employees with an ownership stake in the company's success. VWS, on the other hand, has introduced an incentive system where motorized bikes are provided to those field staff that exceeded performance expectations, which offers great logistical support.

It is important to note, however, that while designing an incentive package for employees, a fundamental problem based on multitasking may arise. Since MFIs have numerous goals in operation, designing an incentive to achieve one may jeopardize the others. For example, if an MFI emphasizes the amount of outstanding credit, then it may push its portfolio away from small, poor-focused group lending and into individual loans to those who are better-off. If the MFI stresses the number of loans given, then credit officers may have clients take more loans from the same organization, which makes it harder to evaluate the quality of loans. Lastly, if the MFI emphasizes the growth and size of its portfolio, then it may lead itself down a road of greater exposure to risk. Overall, when designing staff incentives, MFIs must consider the information problems faced by field staff and design a scheme for its employees that induce them to act in a way best-suited for the organization. The case of VWS illustrates this fact well; although cash incentives and the possibility of obtaining two-wheelers are in place, its field staff may face a disincentive due to the perception that their work experience at VWS is not adding value to their careers. For this reason, considering how to provide employees

with both financially and professionally rewarding careers must also be considered. Overall, it is most important to first identify what kind of behavior in its field staff the institution wants to encourage.

- » **Implementing training programs and credit-plus activities:** As described in the SEWA case, the logic behind educating women to plan for their future is straightforward; regular savings can reduce the cost and tension for a family in the event of planned or unforeseen occasions. To put this idea into practice, SEWA Bank began a financial literacy campaign in 2000 to teach women how to manage their incomes, expenses, businesses, and financial planning. Since then, over 10,000 SEWA members have passed this training, which not only helps them to effectively manage their finances but ensure take-up of SEWA's recurring deposit and savings products. These trainings also reduce risk. If women are more confident in running their business efficiently and maximizing profits, they will be increasingly capable of making timely repayments.

WWF also offers a simplified financial education program and requires that all clients complete leadership training and general education programs. When clients approached the Forum with an interest in learning new income generating activities, WWF joined with specialized institutions to both offer training as well as to help clients look for new employment opportunities.

SWAWS is another organization initiating training for clients by working with poor urban women who have expressed a desire to become economically active. Based on client feedback, SWAWS has implemented training that teaches vocational skills and management of small enterprises; these trainings include discussions of productive use of credit, methods of marketing products, and even human relations. Given the increasing demand from clients for more of types of training programs, SWAWS outsources training to other organizations more qualified to teach vocations in which clients have expressed interest; when necessary, women are asked to pay for the livelihood training in order to cover costs of the programs. What sets SWAWS apart, however, is that they go beyond training their clients and also helps them to market their goods. This is done by linking promising entrepreneurial clients with local marketing companies from whom they receive training and learn technical know-how in addition to various resource requirements.

Beyond financial services, Indian Bank's Microsate and other branches have organized an array of credit-plus activities to more holistically support the welfare of their clients. Some examples of these activities include training clients in operating two-wheelers or developing vocational skills through business tie-ups. Indian Bank also holds exhibitions of products crafted by SHG members to provide clients with an opportunity to market their goods.

Lastly, VWS is an MFI that has received recognition throughout India for its focused activities on the poor in West Bengal. In particular, it has helped the poor in urban and semi-urban areas—who have long been ignored by rural-focused MFIs—access much needed credit. VWS has also taken up credit-plus work including establishing a home for the elderly, operating a women's help-line to promote awareness of anti-dowry and family planning campaigns, and running a primary school for local children.

As illustrated by these MFIs, microfinance, even in the urban space, is a movement extending beyond simply the access and disbursement of credit. By integrating financial services into a broader developmental framework, such as financial and vocational training, marketing assistance, business tie-ups, and bringing local communities together, institutions can be assured of strengthening existing networks that facilitate the implementation of microfinance

activities. Ultimately, microfinance is not a stand alone activity; its success depends on—and should be measured by—the extent to which urban clients have experienced an increase in their quality of life and well-being.

- » **Effectively managing information systems:** The original product of most MFIs is a loan to a large group, which is relatively easy to monitor and account for. However, as urban operations expand, the accounting systems for these institutions will need to evolve with the operational complexities of lending in the urban setting. In particular, the motivation for putting together detailed, individual-level information into a single database is based on the need for accurate cash-flow management and accounting for clients that may have multiple types of loans outstanding, including those specifically for individuals. The benefit of having a single database is that the data can be used for a more rigorous credit-scoring algorithm, which can be used to develop a more systematic screening process, particularly in the urban space where an individual's duration of residence in an area can vary dramatically and affect cohesiveness within a given community and/or group. As described in the SEWA case, the SEWA is currently struggling with overcoming logistical issues in implementing a stable MIS that can sustain its rapid growth in Ahmedabad. An added benefit for investing in improvements is a well-functioning MIS that meets SEWA's needs, combined with the vast existing data available on SEWA clients, makes possible the development of a credit rating system that could not only make the loan sanctioning process more efficient but lower risks and transaction costs.

WWF's resourceful information system provides a testimonial for how MIS is a crucial issue in growth. Each branch is computerized with customized software to meet the organization's needs; this ensures more efficient product delivery and reduces the amount of time required by clients when making transactions.

For MFIs aggressively expanding into India's urban areas, it will be important to remember that managing information systems effectively must be a precursor to this growth rather than a reaction to it.

- » **Coping with rural-urban migration and risk:** Given that much of India's rural poor struggles with unemployment, they typically turn to seasonal rural-urban migration to manage their income risks. For MFIs operating in the cities, however, there is a risk that urban workers who have migrated from rural areas, if accepted into a group-based lending model, may avoid repayment by returning to their villages. This generalization is, of course, not representative of all migrants, and to simply minimize exposure to this form of risk, some urban MFIs—for example, Ujjivan—have added a residency requirement stating that clients must have lived in an area for a certain period of time prior to joining the group. Other techniques, such as that employed by SWAWS, requires that clients produce proof of residence to confirm they are residents of a target locality. For both these organizations, the goal is to not only address migration problems but also obtain better information on clients since groups will have stronger relationships if its members are known to each other for a long period of time.

In general, the six MFIs profiled in this series of case studies have broken a number of paradigms and assumptions about operating in the urban market. Looking at the urban poor objectively and logically, Ujjivan, SEWA Bank, WWF, Indian Bank, VWS, and SWAWS have all recognized a vast opportunity for both the microfinance sector and financial services industry at large. By carefully considering the needs of urban clients, and with the help of partners ranging from local NGOs to mainstream banks, these institutions have developed custom solutions that provide self-employed and salaried poor urban women with superior services at a lower cost that would be available to them

from local moneylenders. In this series on urban microfinance in India, it is evident that neither quality nor profits even need to be compromised in order to provide financial services to the urban market. Microfinance customers in and around India's cities, like any other customers, want solutions to their problems, and if an institution is able to provide them with products and services that are affordable, convenient, and secure, they will respond positively.

Advances in the urban environments in which these institutions operate will add to the quality and growth of their operations, thereby creating a more conducive space for other microfinance providers to enter the market and leading to a more developed urban microfinance market in India. Development of competitive and innovative financial service providers, a favorable legal and regulatory environment, technological infrastructure and support, and the microfinance market itself all provide opportunities for advancement in India. Improving these factors within the sector is not a task that can be taken on by one organization; it requires a collaborative effort by industry stakeholders. The development of a network of MFIs focused on collaboration in support of customer-led strategies and sector expansion efforts, information sharing, and thorough market research would contribute to further advancing the urban microfinance sector. A credit bureau available to all lending institutions, for example, would greatly reduce risk and assist customers in developing credit histories. It would also help customers access financing at better terms while establishing a framework for those women who are ready to graduate out of group-lending models. Finally, developing a variety of consulting and training programs for MFIs, such as those looking to expand or establish operations in urban areas, would help build capacity and innovation among these institutions, translating into better products and prices for urban customers.

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WHAT WORKS: UJJIVAN'S DUAL APPROACH TO MICROFINANCE

Innovative solutions for
delivering financial services in
urban India



By Sudha Krishnan

Overview

As more entrepreneurs enter the microfinance market, the lessons learned from some of the recent players become useful in the decision-making process. Even if a microfinance institution (MFI) enters the market for socially responsible reasons, the long-term viability of the microfinance program is eventually determined by its profitability. Determining cost and revenue drivers is vital to ensuring that resources are appropriately allocated, costs are fairly assigned, and pricing strategies accurately reflect profitability goals. Once a MFI is convinced that the net operating margin of microfinance products is viable, the challenge becomes growing the volume so that net income as well as outreach and impact are also significant.

Ujjivan's target market posed a unique set of challenges for the company. Its intended customers are urban, low-income women who are salaried or self-employed. To carry out its mission of providing a full range of financial services to these customers, Ujjivan faced three fundamental challenges:

- » **Developing a range of products that truly meet urban customers' financial needs.** Many MFIs, in rural and urban areas alike, expect the poor to use microcredit primarily as an income generation tool. As a result, these organizations are unaware of the true usage of credit extended to the poor, particularly to salaried women, who often require loans to supplement their incomes for a variety of purposes, including making home repairs, paying school fees, medical expenses and lease payments, planning social and religious functions, and repaying high-cost debt to moneylenders.
- » **Establishing groundwork for when group-based lending is no longer viable in the urban environment.** As loan sizes increase to meet urban women's increasing demand for housing or children's higher education, the group guarantee mechanism may no longer apply; a woman's peers may be unwilling to cover a loan of Rs. 15,000, for example. As a result, when a specific ceiling is reached—that is, the point at which group members will refuse to guarantee upwards of a given loan size—the need for individual loans naturally arises.
- » **Difficulties managing distribution and operational efficiency in an urban setting.** The tasks of sourcing and managing human resources—particularly field staff—finding space for meetings, and establishing conveniently located branches while reducing costs to achieve efficiency, are increasingly more difficult in rapidly changing cities. Operating in an urban environment places various strains on the company's resources, while growing demand pressures the MFI to resolve these issues to serve as many clients as possible.

Currently, few MFIs in India have been able to address these challenges in the urban context. Therefore, Ujjivan has decided to design its own solutions, under the aegis of the Grameen Bank¹. Though Ujjivan will operate as a Grameen replicator, the company is working to adapt the model to the conditions of poor urban women in India. This partnership has allowed the company to focus its efforts on day-to-day operations while designing products to fit its customers' needs and lifestyles. In addition, Ujjivan's promoters have been keen to work through India's homegrown model of microfinance by lending to self-help groups (SHGs). The resulting solutions employ a two-fold market-led approach, drawing on the financial expertise of the company's promoters and business partners, and taking advantage of modern-day retail banking technologies to enhance Ujjivan's business.

¹ A pioneering MFI in Bangladesh that has attracted worldwide attention because of its innovative and highly successful group-based lending program.

Jyothi started a home-based vegetable business to cater to friends and locals in her neighborhood. With a business loan from Ujjivan, she has been able to expand her business by buying larger volumes of stock. She now can benefit from a turnover of approximately 3 days, where she buys Rs. 4,000 worth of vegetables and earns nearly Rs. 4,300 by selling to locals. Therefore, Jyothi earns an average income of Rs. 100 per day, which she is reinvesting in her business. Her daughter, 18, is still in school, and Jyothi places a great deal of importance in sending her to school, which costs about Rs. 150/month. In order to cover all other household and business related expenses, Jyothi's husband, a worker who recycles waste oils, continues to borrow from local moneylenders. The amount of his borrowings remains unclear, since the subject is not discussed with Jyothi. She is committed, however, to doing the best she can for her family, along with help from Ujjivan. Jyothi is considering taking a larger loan to help further expand her business.



Introduction

MOTIVATIONS

The idea of Ujjivan came out of the need for a MFI to serve the low-income population in urban environments. Many of the urban poor may be more affluent compared to their rural counterparts, but they still have trouble accessing financial services. In spite of the large network of bank branches and ATMs that exists in cities, many of the urban poor find their financial needs largely unmet. This can be attributed to such circumstances as a lack of documentation, irregular incomes, and a degree of discomfort in visiting banks. From the banks' point of view, the customers are often not viewed as profitable, given the small scale of their transactions. In fact, the poor in cities often feel forced to rely on informal credit from moneylenders that can demand interest rates as high as 10% per month.

Given that most MFIs have concentrated their operations in rural areas, Ujjivan views the untapped urban market as an opportunity to expand and make profit. In 2004, a group of former bankers joined with various microfinance professionals and experts to develop a company that combines successful models in microfinance with technologies and efficiencies in modern retail banking. In collaboration with Grameen Bank, Ujjivan will pilot its model in Bangalore, and expand to serve the poor in cities across India within three years. Ujjivan aims to "provide financial services to the economically active poor, to enable them to lead 'a better life.'"

THE URBAN MARKET

From various sources of market research, Ujjivan's estimate of India's urban population consists of 106 million people, which is just over 10% of the country's population. The urban market is expected to grow to over 600 million by the year 2030, with the urban poor making up a significant portion of this growth². Scarce access to microfinance by the urban poor presents a significant challenge. There are many MFIs active in rural India, but a limited number operate in urban areas. According to the 2001 census of India, the poor in Bangalore are estimated at 2.28 million within the city's total population of 6.5 million³. Not surprisingly, the urban poor comprise 35-40% of the population, but only 0.01% of them have banking relationships. This can be difficult to understand, given that the urban market contributes to 62% of India's GDP. Thus, there is a considerable need to address this seg-

² Supriti, Sharon and M Barnhardt, Ramesh Ramanathan. *Urban Poverty Alleviation in India: A General Assessment and a Particular Perspective*. 2002.

³ *2001 Census of India*. Office of the Registrar General, India.

ment, given the lack of attention from mainstream financial institutions and most NGOs and MFIs. Even if Ujjivan only targets economically active poor women in Bangalore, about 20% of the city's estimated poor, the company will be attempting to serve approximately half a million clients.

FORMING UJJIVAN'S STRATEGIC FRAMEWORK

Ujjivan formed a relationship with the Grameen Bank to help explore India's microfinance environment, while benefiting from the teachings of the sector's pioneering institution. Having a productive relationship with this important stakeholder, as a Grameen replicator, would enhance the company's reputation as a new MFI. This reputation would improve leverage in urban marketing campaigns and be an asset in relationships with government officials and financiers. At the same time, Grameen would benefit by having its model successfully adapted to India's urban environment.

Ujjivan

BUSINESS STRATEGY

Ujjivan has implemented a short-term strategy allowing poor women to access newly available financial products and services. First, the company conducted market research in potential communities in order to understand urban customers' profiles, needs, and current alternatives to obtaining financing. Second, it provided financial incentives for locals from the targeted communities to join Ujjivan as Customer Relations Staff (CRS), helping the company to make inroads into the urban market, particularly in slums. Next, Ujjivan developed its pilot initiative, which focuses on adapting the Grameen and SHG models to the urban environment in Bangalore. Once successful, the company's operations will be replicated throughout India. Ujjivan will roll out operations to two new cities annually from April 1, 2007 onwards, including to metropolises such as Mumbai and Delhi, until a country-wide network is achieved. In the medium term, by the company's sixth year of operation, Ujjivan aims to expand its client base to over half a million poor women.

ORGANIZATIONAL STRUCTURE

Legal Structure

In 2004, when Ujjivan was first conceived, it was incorporated as a finance company. Ujjivan's promoters quickly realized, however, the urgency for a Non-Banking Finance Company (NBFC) license from the Reserve Bank of India (RBI), in order to commence operations as a MFI. There are few MFIs in India registered as NBFCs, since many companies find it difficult to meet the RBI's capital requirements. Once an organization receives its license it will not be permitted to accept public deposits until at least two years of profitable operation are maintained and a positive rating is obtained from a microfinance credit rating agency.

In the case of Ujjivan, however, the company raised over Rs. 28 million domestically, including Rs. 7 million from the Bellwether Fund, India's first microfinance investment fund, and Rs. 27 million from overseas investors, totaling Rs. 55 million in available capital. In 2005, after the company obtained sufficient funds to meet the RBI's capital requirement, Ujjivan's promoters applied to become an NBFC, and received the license in a record time of 48 days, fastest of any MFI in India⁴.

OPERATIONS

Areas covered

Ujjivan has opened branches and established an administrative office in Bangalore. Its first branch in Koramangala opened for business in November 2005—close to one week after the RBI issued the company its NBFC license. The Koramangala branch office services customers in South Eastern suburbs of Bangalore city. Given that many of the company's target customers reside in this locality, Ujjivan plans to relocate its permanent office to this first branch. In January 2006, the company's second branch office opened for business in Yeshwantpur, a northwestern suburb. The third branch opened in March, also in northwestern Bangalore. Currently, each branch serves as a field office where staff members are responsible for all customer interaction, including selling and servicing.

Mobility is an issue with which the company is struggling. The nature of slums, where many of Ujjivan's customers reside, is that they are often pockets of small communities within a larger suburb. Even when branch offices have been established in central locations, it may still be challenging for field staff, as well as clients, to commute between the branch and a settlement. In Koramangala, for example, there are approximately eight or nine slums, which are an average distance of five kilometers from Ujjivan's local branch. The distance is too far for CRS members to walk, but too short to take a bus, since buses do not frequent such a short route. This is one of the distributional challenges the company seeks to solve.

Customers

Microfinance in India has focused largely on women. Research shows that women invest a larger portion of their incomes in the household and family well-being, particularly in the well-being of their children. Women also prove to be more financially responsible and have more effective peer pressure mechanisms, which leads to better repayment performance. For these reasons, Ujjivan's target market in Bangalore is comprised of both salaried and self-employed women. In the informal economy, women are often employed as housemaids or cooks, whereas in the formal sector, they might work as factory, hospital, office, or hotel workers. Women also find work as incense stick and cigarette rollers. Alternatively, self-employed women are primarily small shop owners or vendors. Ujjivan will also focus on hawkers and produce traders. Though many of these individuals are struggling without access to financial services, they typically lie at the upper end of the urban poor spectrum, earning Rs. 2,000-7,000 per month. Ujjivan does not intend to cater to the "poorest of the poor" segment, since the company feels that the destitute have more pressing needs than access to microfinance. Instead, the typical profile of an Ujjivan customer, a poor working woman in Bangalore, is as follows:⁵



Anitha, 23, is a tailor who has recently decided to open a petty shop at her residence. Prior to borrowing from Ujjivan, Anitha and her husband, a manual laborer, had multiple loans outstanding from a local moneylender at a 10% flat interest rate. When Ujjivan came to her neighborhood, Anitha joined a group with her peers, and became eligible for a business needs loan. With savings of Rs. 1000, Anitha borrowed Rs. 3000 from Ujjivan to purchase a phone currency box that costs Rs. 4,000, which has expanded her business considerably at the shop. Her loan term is for one year, and she is currently making monthly repayments of Rs. 384.

Household Monthly Income	Rs. 5,100
Household Size	5
Number of Children	2
Earning Members	2
Number of years in Bangalore	12
Number years at present home	6
Number of years at present occupation	8
Semi Pucca Housing	65%
Rented Housing	80%
Married	90%

According to the company's market research, the reasons that the urban poor borrow range from family needs, such as housing and schooling, to business requirements, such as working capital⁶.

Without many options for obtaining financing, the poor often take loans from moneylenders, chit funds, and pawn brokers, paying heavily for their lack of options⁷. Ujjivan has discovered that 98% of salaried women borrow from moneylenders 77% of the time, and 77% of self-employed women borrow from money lenders 90% of the time. It is obvious that these individuals lack decent options in obtaining financing, explaining the huge potential for growth for MFIs that serve the urban poor.

Products & Services

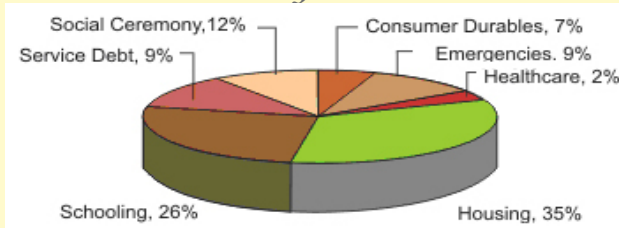
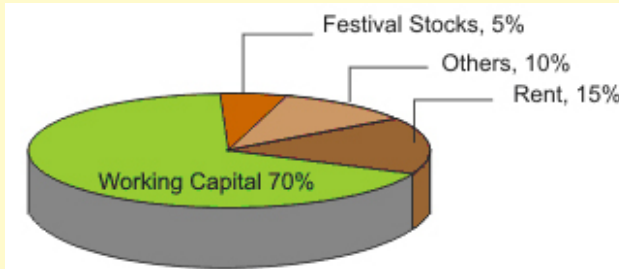
In response to poor working women's financial constraints, Ujjivan has developed two basic credit products to meet both family and business needs. Given that many low-income women in Bangalore work as maids, factory workers, or support staff in various industries, they require credit for household expenses that their salaries often do not cover, such as home repairs, children's school fees, festivals, medical expenses, and even servicing existing debt to moneylenders. For this purpose, Ujjivan has created Parivara Sala, which is a family-needs loan ranging from Rs. 5,000-7,000. For self-employed urban, poor women who earn their income by selling fruits, vegetables, and flowers, or by running small shops, the company designed Vyapara Sala to expand their clients' businesses. With amounts from Rs. 3,000-7,000, this loan is to be used as a working capital loan to acquire things like push carts and sewing machines. After the second loan cycle, a business loan may be used for a broader array of uses, including vocational training. Both loans are promoted to clients based on attractive interest rates, lack of a security requirement, life insurance, minimum waiting time, and promise of bigger future loans for good customers. What is unique about Ujjivan's approach to credit is that clients must show the field officer that they have a specific purpose for the loan, even those seeking credit for family needs.

Before Ujjivan even begins lending, however, the field staff is encouraged to discuss savings with potential clients who have formed themselves into groups. Because Ujjivan is now an NBFC, it is prohibited from mobilizing public deposits. To help familiarize their clients with formal financial services, the company has developed tie-ups with local banks so that field officers can show a group of potential clients where the nearest branch is, how to open a savings account, and how to continue depositing funds. The CRS member suggests that each individual in the group contribute a minimum of Rs. 20 per week to the group's joint savings account for approximately three months. In addition, before group members can receive a loan, they must make a security deposit, which is 10% of the desired initial loan amount, which is to be deposited in a local bank with the assistance of Ujjivan. At the bank, the group's funds will earn interest of approximately 3.5%. Once the sufficient deposit is achieved, a credit officer will help the group withdraw its funds from the local bank. The full amount of the group's savings is returned to its members, and only then will Ujjivan begin disbursing loans. The inherent design of this procedure is to instill financial discipline in clients, particularly in those who have no previous experience with formal banking institutions.

In terms of interest rates, the company charges 1.25% per month on loan cycles that are 16, 24, or 48 weeks. The general tenure of the loans can vary and last up to one year. In addition, the company has structured the products in such a way that, even though interest is serviced monthly, repayment of the loans can be daily, weekly, or monthly based on customers' cash flow situations. Typically, self-

6 Ibid.

7 A chit fund is where a group of individuals pool together a predetermined amount of money at fixed periods; the number of people and number of periods are the same. At the end of each week, for example, the group's leader will hold an auction and bid for the amount of money in the pot. The winner of the auction is the person who bids the lowest amount. This process continues each period, and the winning bid amount is split among the members who did not win the auction, which determines the individual contribution during that week. In the end, the winning bidder receives the full pot.

*Reasons for borrowing by the urban poor:***Family Needs****Business needs**

employed clients, such as vegetable vendors, make weekly deposits, and salaried customers, like factory workers, repay monthly.

Another example of how Ujjivan has followed a market-led approach, designing products around customers' needs, is included in loans Rs. 1,000 for emergencies only, repayable over 20 weeks. The company guarantees that funds for emergencies will be disbursed within 24 hours, but it is often the case that if a customer visits the branch in the morning, she will receive funds that same evening. In the past, logic has dictated that the poor will continue to do business with moneylenders, in spite of the increasing presence of MFIs, due to the local lender's ability to meet the needs of clients around the clock, particularly when

unforeseen events occur. In effect, Ujjivan's emergency financial support imitates, if not replaces, high-cost local moneylender loans for situations such as a child's sickness or loss of work.

Traditionally, MFIs have viewed poor people's needs for financial services as credit for small enterprises. Today, it is commonly accepted that the poor, like their wealthier counterparts, need a variety of products and services to meet their needs. Ujjivan's promoters have realized the importance of developing and providing a range of financial products and non-financial services to meet their clients' needs. Within the next two years, once its initial products are firmly in place, Ujjivan plans to expand its product offerings to include housing and higher education loans available to those customers in good standing with the organization. Ujjivan is also working with an insurance company to offer a health insurance scheme, which will be a mandatory product bundled along with all other offerings. The company believes, however, that microfinance is simply one important part of empowering the poor. By partnering with local organizations, Ujjivan's promoters will support community development activities, particularly those NGOs providing vocational training and other services that will help clients expand their businesses or learn new skills.

Distribution Channels

Ujjivan's operational process begins with field officers visiting slums, and other areas where the poor live, to conduct initial surveys on potential clients. They gather in-

formation on age, location, income, occupation, education, length of residence in the slum, and etc. Once the company has identified clients with whom it would like to work, the women are invited to attend a projection meeting. At this initial meeting, Ujjivan's branch manager informs residents about the company's objectives, products, policies, and procedures. After the projection meeting, the branch manager informs potential clients that CRS member will be returning to the area in a few days, and those who are interested in attending can self-select into groups of five. Since many of the poor have had little education, basic training is required for all potential members to assure complete understanding of the rules and procedures of the group lending and credit systems. The compulsory group

"However prevalent, the mostly informal financial services currently available to the poor have serious limitations in terms of cost, risk, and convenience. Moneylenders generally charge extremely high interest rates on loans. Buying supplies on credit is far more expensive than paying cash. Rotating savings and credit associations (ROSCAs) usually offer little flexibility in the amount or timing of transactions. Lastly, formal financial institutions may not offer financial products that are appropriate to the needs of the poor."

—World Bank Consultative Group to Assist the Poor, Annual Report, 2004

training (CGT) is conducted by a CRS member over six days, for one hour each day. On the final day of training, the Ujjivan branch manager administers an oral examination; this 'group recognition' test (GRT) is simply a conversation between an Ujjivan employee and the group to ensure that each member of the group understands her responsibilities in taking out a loan, including details about the loan, such as the interest rate, premium, loan cycles, other product offerings, and group guarantee.

Once the group passes the test and is recognized by Ujjivan, each group elects a leader from among its members, and, in turn, one of the five group leaders is elected leader of the Center. The responsibilities of the group leader include checking on attendance at weekly meetings, payments made, conduct of meetings, loan utilization, and exploring any problems among group members. The Center leader has similar duties, but also works to resolve major problems that may arise within individual groups. Transparency is continually emphasized by Ujjivan in all aspects of its business in order to share the company's goals with customers and to assuage any suspicions within or outside the community. This same principle also helps group members deal with family pressures. Husbands are even permitted to openly listen to meetings or to watch business transactions within the Center. The

MODELS OF MICROFINANCE

The basic idea of microfinance loans is to replace physical capital with social capital for use as collateral. Within the social networks that are formed by individuals or by outside organizations, such as NGOs or MFIs, 'joint liability' refers to group members' mutual responsibility for each others' payments. There are many MFIs in India replicating the famed Grameen Bank's joint liability group (JLG) model. The benefits of this model for the company include tighter control over clients through monitoring standardized systems and procedures, a superior forecast of the need for funds relative to other approaches, and the ability to use a less-qualified staff, since the system is already set in place. During the weekly meetings, the members deposit savings through the MFI, and also take loans, which are given out only for specific purposes and must be approved by Grameen. Though the MFI maintains the savings and loans accounts of its clients, the groups themselves are responsible for guaranteeing loans to their members, accepting joint liability, raising emergency funds, and accepting the fact that no member of the group will be able to take out a new loan if even one member is in arrears. In addition, the responsibility of appraising fellow members' loan applications and ensuring that members make regular savings deposits and loan repayments is taken on by the group. Effectively, Grameen's JLG model has been tried, tested, and evolved over a period of almost 30 years and ensures that financing reaches each individual member of the group on merits. The MFI plays an active role as well, which will contribute greatly to the performance of groups. Ujjivan has chosen to start working through this approach, under the aegis of the Grameen Bank, which will provide the company with technical guidance and training.

However, unlike Bangladesh, India is not limited by the success of only one approach to microfinance. In fact, one of the country's largest NGOs, the Mysore Resettlement and Development Agency (MYRADA), along with the National Bank for Agriculture and Rural Development (NABARD), paved the way for the homegrown model of self-help groups (SHGs). As with JLGs, individuals from similar backgrounds come together to form groups. With SHGs, however, the groups can be much larger in size with at least 20 members. A NGO or MFI may form the groups, or the groups may come to an organization from an existing rotating savings and credit group (ROSCA). The process of a group officially linking to a MFI begins with the SHG members making regular savings contributions, which may be kept with the group leader or banked. Next, members individually borrow from their groups, and the interest rates and loan terms are decided on within the groups themselves. Though banks and MFIs may lend to SHGs at reasonable rates, the group may lend to its members at a fixed rate of 2-3% per month. At some point, the SHG opens a savings account in the group's name, either at a bank or MFI, in order to qualify for a loan. Once the bank or MFI disburses a loan to the group, the SHG will use the funds to supplement its own for on-lending to its members. Since the group as a whole is responsible for repayments, the MFI's transaction costs are significantly reduced. According to the top MFIs in the country, many of whom lend to SHGs, one of the most important features of the model is that it works within the parameters of India's complex legal and regulatory framework. Given the success of this domestic approach in empowering women, in particular, Ujjivan has chosen to work with SHGs as well as Grameen groups.

goal of both women in these leadership positions, who are the intermediaries between the MFI and individual customers, is to keep groups together and to make sure that members have sufficient support.

One of Ujjivan's key innovations is based on how the company has combined the front-end of its operations, implementing the Grameen model in Bangalore's urban setting, with a back-end of modern retail banking operations. This means that credit reaches Ujjivan's customers in a much more efficient, systematic way. Once a loan is approved by an individual's group, center, and CRS member, the request is processed from Ujjivan's branch office's credit department and is sent to the operations division at the administrative office, where the loan is formally approved and a limit is set. Next, original and duplicate copies of the customer's loan card, which contain information on repayment schedule and amounts, are sent to the local branch office. Along with the loan cards, the operations department informs the branch of how many loans have been approved, and sends a check for the total amount to be disbursed. The branch cashier cashes the check, and the individual loans to be disbursed are either sent with the CRS member to be given out during the next Center meeting or retained at the branch office for a customer to come and collect.

Given that most of Ujjivan's CRS team is female, there are additional security concerns to consider within the distribution channel. For example, if there are five women in a Center who are approved for loans of Rs. 5,000 each, the CRS will have to either walk or take a two-wheeler to the meeting carrying Rs. 25,000. This situation can be a dangerous one, particularly since locals in the community will be aware of who the CRS member is, and the timings of the Center meeting. En route, it is possible that various problems may arise, including harm to the CRS member or theft. Given these scenarios, Ujjivan has devised another system, in which the CRS member delivers the duplicate copy of loan cards to customers, which will list a designated time and day for the client to visit the branch collect her loan. The company's emphasis on customer care is seen throughout this process. For example, it is each branch's implicit goal not to make any customer wait more than 20 minutes during her visit. In addition, the branch manager will take time, even if only a few minutes, to have a conversation with the client about her current situation, what the loan will be used for, how it should be repaid, etc. Lastly, before the customer leaves, she receives the loan in cash and the original copy of the loan card, while the branch retains the duplicate.

Once a woman receives a loan from Ujjivan, to ensure that she is using credit for the stated purpose and maintaining a good repayment record, she conducts a loan utilization check with a CRS member and group leader. The visit is usually scheduled for two weeks after the loan is disbursed to determine how the individual has made use of the money as well as the percentage of the loan amount remaining.

Another way in which Ujjivan is distinguishing itself in the market is by combining the benefits of both Grameen and SHG models as effective delivery mechanisms. The Indian SHG-Bank linkage model is the largest microfinance program in the world, with nearly 1.5 million SHGs comprising close to 20 million women who borrow from banks or MFIs through groups. Unlike traditional MFIs lending to SHGs, however, Ujjivan has chosen to take a more active role in its contact with SHG members, as opposed to relying only on the NGO animator or group itself. Though the company does provide an annualized linkage charge to NGO partners for bringing groups to Ujjivan, it is important to make sure these SHGs are of high quality and that members have thorough training and understanding of financial discipline. For this reason, the company sends CRS members to work with SHGs in training and also requires that the group maintain proper records, including details of savings, lending, and attendance, for at least 6 months before becoming eligible for a loan. This documentation is part of Ujjivan's strategy in laying the groundwork for developing a long-lasting relationship with groups, particularly as members graduate out of group lending. Once this occurs, it

will be important to have well-maintained and accurate records on individual members' credit histories. Thus, Ujjivan decided to expand its outreach by getting involved with SHGs, particularly since the company was continually being approached by NGOs forming and working with these groups. Currently, Ujjivan is working with approximately 25 groups and two NGO partners; the company is expecting to develop this network significantly as it moves forward with operations in Bangalore. What sets the company apart from other MFIs taking part in this same model, however, is the promoters' specification that groups must lend to members at the same interest rate offered to them by Ujjivan, which is the same rate charged to Grameen groups: 1.25% per month.

Scalability

The challenge before the promoters of Ujjivan is to innovate ways of initiating, processing, and recovering loans, through Grameen groups or SHGs, by working with the commercial sector given its strength in achieving scalability. As with many MFI entrepreneurs, Ujjivan's promoters are aware that the company's operations will be testing the feasibility of the Grameen and SHG approaches in India's urban settings. Samit Ghosh, Ujjivan's CEO, is confident that the JLG model, in particular, will translate well in the Bangalore pilot, particularly since the Grameen Bank will be assisting with technical support. As to what extent and how delivering microfinance to the poor through group-based lending is scalable, MFIs' overseas and domestic experiences have shown that, with a market-led approach and genuinely efficient operations, there is no reason why Ujjivan cannot achieve capacity building and economies of scale. In fact, providing financial products and services through groups will help reduce the company's risk, given joint liability, and will be critical as Ujjivan plans its expansion within Bangalore and across India.



—By joining hands, women are finding greater freedoms. (Picture credit: CARE India)

The company's roadmap begins with its 18-month pilot project in Bangalore, which has been in operation since November 2005 and is expected to continue through March, 2007. Ujjivan's goal is to achieve 12 branches in Bangalore city with a target outreach of 25,000 women. Ideally, the company wants to establish an outreach of 500,000 women by its sixth year of operation. Lastly, while Ujjivan strives to operate a viable business, break-even in the third full year of operations, and provide investors with a target 15% return on equity (ROE) over a 5-year span, the company's fundamental goal is to "provide financial services for customers to enable them to be free of poverty within five years of starting their relationship with Ujjivan."⁸

In terms of competition, there are a growing number of MFIs operating in urban India. Sanghamithra, a MFI created by MYRADA, has expanded into the urban space from its mostly rural operations by creating an independent urban unit in Bangalore. The Sanghamithra Urban Program (SUP) has been in operation since 2000, and follows the SHG model closely. In 2006, the SUP will be absorbed by a new organization named Janalakshmi, which is being promoted by Sanghamithra's Vice-Chairman. Janalakshmi will have an exclusive focus on Bangalore's sub-prime sector, which includes those individuals who socio-economically lie between the poorest of the poor and those with access to formal credit. The SUP/Janalakshmi, like many others, has developed a partnership with ICICI Bank, India's largest private bank, to individually lend to fruit and vegetable traders in the city. Spandana, one of the fastest growing MFIs in India, based in Andhra Pradesh, is another MFI that has recently started operations in Bangalore. However, while most organizations are only now expanding

into Bangalore, Ujjivan's advantage is that it has been operational since the end of 2005, and has already acquired over 1,665 group members. Of these 1,665 Ujjivan customers, nearly half are active borrowers.

Furthermore, what sets Ujjivan apart from its competitors is its unique product bundling. When a customer takes out a loan from the company, she not only receives money to put towards a specific use, but can take advantage of a variety of features included with the credit product. As described above, she can access emergency funds, which are often available within 12 to 24 hours. In addition, Ujjivan offers customers' children a scholarship for school fees. By paying Rs. 100 per month, a client's children will receive tuition coverage of Rs. 3,500 per child in grades 8 through 12. Via its partnership with the Life Insurance Corporation of India, the company also offers life insurance coverage to clients for an annual premium of Rs. 100, providing a woman and her husband each Rs. 50,000 in coverage. This distinctive bundling service puts forward the option for Ujjivan's customers to improve their lives in a holistic sense, from providing opportunities for their children to protecting themselves and their families from unforeseen circumstances.

It is known that many poor working women currently rely on the un-organized market, including chit funds, moneylenders, family, and friends for credit or savings facilities in times of need. As competition amongst lenders intensifies and the microfinance market in Bangalore matures, not only is outreach expected to increase, but there will also be substantial product innovation based on the necessity of allowing customers' needs to drive the business.

FUNDING FOR THE INITIATIVE

Currently, although Ujjivan is open to various financing models, the company has relied on private investors. The company has raised Rs. 25 million of Authorized Capital, which is divided into 250,000 shares of equity at Rs. 100 each. Since its initial round of fundraising, which resulted in Rs. 24.31 million, Ujjivan's investors have been mainly the promoters' friends and associates, who include prominent figures in the financial and information technology sectors. The principal investor, however, has been the Bellwether Microfinance Fund. (See "*The Bellwether Microfinance Fund*")

In Ujjivan's second round of raising funds, the company has attracted numerous domestic investors, giving Ujjivan an additional Rs. 8.7 million in domestic capital. Given the company's total capital of Rs. 33 million and the expected demand of additional Rs. 33 million, Ujjivan's promoters are working through foreign direct investment (FDI) channels, including NRIs, foreigners, and institutions overseas, to raise the remaining Rs. 33 million needed. Recently, in addition to the Bellwether Microfinance Fund, Ujjivan has received financing from the Michael and Susan Dell Foundation as well as Unitus, an American microfinance equity fund. The principal advantage for the company from receiving funding through private equity is that there is no immediate need to pay interest. The implications of this carefully chosen strategy are that the institution is aiming to build its capacity from the beginning as well as planning to have access to more than enough capital support, even before Ujjivan breaks even in its first three years. Ideally, the promoters want to pay dividends, ranging

Ujjivan at a Glance (as of April 2006)

Total # of branches	3
Total # of active groups	260
<i>Grameen</i>	235
<i>SHGs</i>	25
Total # of members	1,665
<i>Grameen</i>	1,175
<i>SHGs</i>	490
Total # of active borrowers	786
# of loans outstanding	786
Amount of outstanding credit	Rs. 3,664,206
Rate of recovery	100%
Total # of staff	59
<i>Branches</i>	41
<i>Head office</i>	18
PAR (30 days, 60 days)	100%

from 10 to 15 percent, after the company's third full year of operations, which will be the end of the fiscal year in 2008. Overall, however, the overarching aim for Ujjivan is to launch an initial public offering (IPO) during the fiscal year of 2009-10, following its first three years of profitable operation.

In terms of the company's financial performance and indicators, it remains too early to tell how Ujjivan has progressed since its first loans were disbursed in January 2006. Initially, however, it is likely that the arrears rate will be 0%, while the returns on equity and investment are negative, since the promoters expect operating at a loss in the company's first few years. Once Ujjivan achieves its goal of breaking even in 2007-2008, a dramatic turnaround is expected.

For successful MFIs, risk management is a daily part of business, particularly given the array of risks inherent in operations from credit risk to fraud risk. The main idea of risk management is that risk levels should be directly proportional to expected returns; for MFIs, the tendency is to prefer less risk and, therefore, less return.⁹ Controlling and reducing a MFI's exposure to risks, nevertheless, remains a constant priority. The MFI's managers

are experienced with managing credit risk as well as portfolio-at-risk (PAR), by cash-flow management and diversifying the portfolio with various product and services. There are business risks to consider as well, particularly those that are client-related. First, by encouraging groups to open savings accounts and by achieving a 10 percent security on loans, the company is providing a service while

CAPITAL-CURRENT STATUS & FUTURE PROJECTIONS (RUPEES MILLION)						
	10.31.05 (E)	03.31.06^	03.31.07^	03.31.08^	03.31.09^	03.31.10^
Capital	24.3	66.0	66.0	66.0	66.0	66.0
Reserves	(3.4)	(9.0)	(15.0)	(13.0)	6.0	60.0
Total	20.9	57.0	51.0	53.0	72.0	126.0
* Cumulative — ^ Projected						

gaining a form of collateral in kind. In addition, though they allow for flexible repayment schedules according to clients' cash flows, Ujjivan's promoters have insisted on servicing interest on a monthly basis to reduce any gaps in the maturity of assets with liabilities. By also requiring that customers have lived in an area for at least five years prior to joining an Ujjivan group, the company is mitigating a risk thought to be common in cities—that urban workers who may be bad credit risks will escape repayment by migrating back to rural villages. The joint liability mechanism itself within customer groups helps to lessen credit and transaction risks as well.

THE BELLWETHER MICROFINANCE FUND

In order to help MFIs expand their programs and possibly transform into formal financial institutions, two microfinance professionals came together in 2004 to establish India's first and, as of now, only microfinance investment fund. The Fund's objectives emphasize coupling the availability of equity or quasi-equity investments in the first few years of a MFI's operations, along with operational support and supervision, to support an institution's outreach to financial markets and transformation into a viable, regulated business. Bellwether's promoters decided from the onset to pinpoint a few MFIs that meet the fund's investment criteria and take a significant equity position in these institutions in addition to providing varied and tailor-made debt. Some of the attributes which potential MFI partners must possess include a focus on the poor; a sustainable business model; ambition to scale up; innovative distribution channels; experienced management; strong debt servicing ability; and the capacity to generate returns on equity. To achieve its goal, the Bellwether Fund will intermediate linkages with mainstream financial institutions and capital markets through its product offerings, using risk capital as its main financial instrument.

Since it began operating in 2005, Bellwether has disbursed investments to six Indian MFIs, including Ujjivan. With an initial equity investment of Rs. 7 million, amounting to a 26% stake in Ujjivan, the fund classifies the nature of its investment as common equity in a start-up MFI. Bellwether chose to work with Ujjivan not only because the company meets all of the fund's investment criteria, but because the fund's promoters believe in supporting promising start-ups who show promise in their plan of providing financial services to the poor in microfinance-deficient areas, such as India's cities.

9 Bruett, Till. "Four risks that must be managed by microfinance institutions."

Critical Partnerships

Since microfinance remains only one factor in the equation to alleviate poverty, Ujjivan's promoters feel that partnering with NGOs is a good way to leverage the company's resources in order to achieve its mission of making lives better for the poor. By working with local organizations, focused on a vast array of issues from childcare to education, Ujjivan can benefit from associating with the great roles these NGOs play in terms of capacity building for clients. For example, Outreach India is one of Ujjivan's partners that runs a schooling program for children of construction workers and laborers in Bangalore. Similarly, the Parikrma Foundation runs schools for poor children and orphans in the city in addition to providing healthcare, clothing, etc. At the same time, the NGOs, who often are purely social welfare minded, benefit from the MFI's business skills that will help both organizations achieve shared goals.

Overcoming Constraints and Expanding Opportunities

Ujjivan, founded by a group of former senior bankers, is the culmination of over two decades of experiences developing financial and micro financial markets. Nevertheless, the range of challenges before the company was considerable, given the need to address problems of a start-up as well as adapt to the changing needs of urban clients. To achieve success in terms of addressing the economic needs of low-income women and achieving profits, the organization has devised its own way of resolving its constraints:

- » **SUCCESSFUL PRODUCT DEVELOPMENT:** The realization that many MFIs, particularly those beginning to operate in urban areas, have not met the larger demand for financial services by the poor for household use has led Ujjivan to develop an entirely separate loan product, which is to be used exclusively for family needs. Though salaried and self-employed women are eligible for this loan, Ujjivan has found the product particularly appreciated by salaried women. By conducting thorough market research and developing a new product that is less supply-driven and more responsive to client needs, Ujjivan has established a loan product for women that no longer have to take credit under the pretense of working capital. Both salaried and self-employed women have the flexibility to choose between a family or business loan, which also helps the company keep track of the needs and uses of credit. These records will be particularly useful in the future when clients begin approaching the company for individual loans. The end result is that low-income women no longer have to turn to moneylenders to obtain funds for reasons not related to income generating activities. Ujjivan has identified early on the importance of designing products based on client needs and preferences not only for achieving portfolio diversification but also for increasing client loyalty and retention.
- » **ADAPTING THE MODELS:** In 2001, the Grameen Bank revolutionized the way it conducted its microfinance operations by developing its model into a market-led system, known as "Grameen II." This new approach offered customers a new range of products to meet the diverse needs of Grameen's target market. The result was that clients used the services of the informal sector and other MFIs less and less. Just as the famed Grameen Bank evolved, its replicators, including Ujjivan, have had to face the challenge of adapting the "model" to meet the needs

and demand of the poor in new areas. As noted by Stuart Rutherford, founder and chairman of SafeSave, the move from the “plain vanilla,” classical Grameen model with its relative simplicity, and associated limited options for clients, such as time-opportunity cost of frequent meetings and

pressure to borrow, to a more market-led approach is likely to be immensely challenging for most.^{10, 11} While Ujjivan continues to work with a technical advisor from the Grameen Bank during implementation of the model, the company's management is working to adapt product and delivery system design to the needs of poor women first in Bangalore, and, ultimately, across urban India.

UJJIVAN'S KEY INNOVATIONS		
Services	Resources / Logistics	Management
<ul style="list-style-type: none"> • Successful product development • Adapting distribution models 	<ul style="list-style-type: none"> • Hiring local staff • Overcoming space constraints • Employee incentives & training 	<ul style="list-style-type: none"> • Operational efficiency • Governance & leadership • Integration of resources from corporate partners • Corporate culture • Full self-sufficiency/profitability

A recent example of how Ujjivan is tailoring the model was the reduction of the number of groups required to form a center, given that it can be challenging to accommodate a group of 50 women for meetings on a regular basis. By reducing the number of groups from ten to five, the company has found a much more manageable model, which is also beneficial to clients since women can meet in each others' homes with this small group size.

Similarly, as increasing numbers of local NGOs approach the company about on-lending to SHGs, Ujjivan's strategy for this separate business had to be adopted as well. As operations progress during its pilot project in Bangalore, the company will discover when and under what conditions the GRAMEEN and SHG models are suitable. In the case of SHGs, it is probable that this business can meet the needs of more fragmented communities with a diverse array of opportunities and needs for financial services. By working more closely with its NGO partners and the groups themselves, Ujjivan can further develop its SHG business by adapting the model as much as possible to provide customized solutions based on the company's understanding of local conditions. Thus far, the company has adapted the model to meet its needs as well those of its clients by requiring that SHGs lend to their members at the same reasonable interest rate Ujjivan charges to the group as whole. This is one step the promoters have taken to ensure that the SHGs do not charge a higher per month flat rate, which often marginalizes poorer members.

» DISTRIBUTION DIFFICULTIES:

- » **Hiring/retaining staff:** *In the urban environment, hiring and retaining field staff is a challenge for MFIs, given the demanding nature of the position. Ujjivan, like other MFIs, requires that a field officer, known as Customer Relations Staff (CRS) have passed Class 10 or equivalent in school, have good numerical abilities, and be fluent in a local language, such as Kannada or Tamil, with a working knowledge of English. The company also limits their field staff to locals in the communities where the company is serving. There are obvious reasons for this condition, such as existing relationships with potential clients and familiarity with their financial behavior; however, this added requirement means the pool of qualified individuals is much smaller. Ujjivan has also found that, particularly in a cosmopolitan city like Bangalore, most young men who have recently finished their school-*

10 SafeSave is a registered cooperative in Bangladesh, established in 2002, which provides savings and credit to the inhabitants of slums at their doorstep, operating on the presumption that poor people can and do save, but simply lack frequent opportunities to store savings in a safe, accessible manner.

11 Rutherford, Stuart. “The Poor and their Money.”

ing prefer to work in an office environment, or at a job that is more glamorous than field work. As mentioned, working in microfinance is a very labor intensive commitment—one that requires passion as well as sensitivity to the poor and their needs. By hiring additional female field staff, Ujjivan has found qualified individuals who are typically an important element in building a corporate culture that supports outreach to women. In fact, female staff members have the potential to significantly expand Ujjivan's outreach to female clients, thereby increasing the company's client base and potentially enhancing its financial performance. Nevertheless, it remains too soon to generalize just yet about how male or female CRS members will succeed at field work in and around the city.

- » **Space constraints:** *A challenge that may seem trivial, initially, concerns the difficulty of accommodating a large number of women during group meetings in urban areas. In a city, where open space is often a set premium, finding a location to accommodate a center meeting, comprising of 10 groups of five women each, on a weekly basis creates some difficulty for Ujjivan. In addition, the location of these meetings must be somewhere that is convenient to as many members as possible, particularly since women often have less free time than men do and may be less mobile. In order to ensure that a sufficiently large space is available and conveniently located, Ujjivan branch managers are currently working with local schools, health centers, and community centers that may be able to make space available for group meetings by either donation or charging Ujjivan rental fees.*

At each weekly meeting, all group members and leaders first recite the Customer Pledge, followed by the CRS reciting the Staff Pledge.

CUSTOMER PLEDGE

*We will use the benefits of our loans to eliminate poverty
We will repay our loans promptly
We will save regularly for our family
We will educate our children
We will stand by our group in good times and bad
We will work to build a long and mutually beneficial relationship with Ujjivan
God is a witness to all our acts and deeds.*



STAFF PLEDGE

*We will work with poor women
towards eliminating poverty
We will work without discriminating caste, creed or religion
We will be truthful in all our activities
God is a witness to all our acts and deeds.*

- » **OPERATIONAL EFFICIENCY:** In response to the challenges of reducing costs and increasing effective use of technology, Ujjivan has decided to designate a central office in Bangalore for processing, administration, and technology. The company uses “the factory concept” for the centralized processing of all data recording, transaction processing, preparation of reports, and storing documents. Ujjivan's managers are aware that the highly efficient operation, technology, and processes characteristic of a modern retail financial institution are necessary for capacity building and achieving economies of scale. As a result, operational support is readily provided to those working on front-end operations, including standardization, an efficient and scalable processing centre, and all the facilities needed for data entry; processing transactions; maintaining customer records; checking service quality; and control systems for auditing. Furthermore, Ujjivan recruits operations staff through a careful selection process to ensure that

these individuals have the commitment and passion needed to work in a microfinance environment.

From the promoters' experiences, Ujjivan has designed a unique model that integrates core group-based business operations with community development activities through financial and NGO partnerships. At the same time, the company plans to develop its success by building on the following factors:

"We at Ujjivan deal with money belonging to people and more importantly, belonging to poor people. They trust us and place great faith in our honesty. Therefore, it is crucial that we take their trust seriously. Their needs are our responsibility. Our honesty is their guarantee."

—**Ujjivan Mission Statement**

- » **GOVERNANCE AND LEADERSHIP:** Successful urban microfinance initiatives are designed and governed by cross-functional teams of operations, finance, human resources, information technology, field staff, etc. At the same time, the role of senior leadership cannot be overlooked, particularly at Ujjivan. In addition to the company's founders, including CEO Samit Ghosh, Ujjivan's Board of Directors includes many prominent figures in the sector, such as Viswanatha Prasad, former CEO of India's first regulated MFI, Bharatiya Samruddhi Finance Limited (BASIX) and Bellwether's current fund manager. Ujjivan also has an advisory group of individuals, such as Jaithirth Rao, CEO of Mphasis, one India's leading information technology firms, and Vijay Mahajan, a leader and pioneer of microfinance in India who founded two large and successful organizations, Pradan and BASIX. The roles these individuals play within Ujjivan are to not only support a long-term, solid commitment from the company to the community, but to attract greater commercial investments in microfinance domestically and internationally. Having someone like Mr. Mahajan advising the company attracts the attention of investors and high-quality talent in the sector. Ujjivan's leaders, directors, and advisors are jointly instrumental in obtaining involvement and commitment from business and banking partners. These individuals associating with an urban microfinance initiative improves Ujjivan's reputation and further adds to the perception of the urban microfinance market's viability.
- » **STRATEGIES THAT USE CORE CORPORATE RESOURCES:** On its own, and through its relationship with the Grameen Bank, the Bellwether Fund, MSDF, and Unitus, Ujjivan has a wide array of business resources available, including expertise in group-based lending, tie-ups with local NGOs for community development, and local facilities in Bangalore suburbs. The company's urban initiative will blend these core business resources with community relations and community stakeholder resources, as summarized in the table on the following page.
- » **CORPORATE CULTURE:** The company's emphasis on loyalty to customers, colleagues, and employees themselves cannot be overstated. This idea is reinforced by teamwork, where the organization is non-hierarchical and not unhealthily competitive. Ujjivan's leaders readily accept constructive criticism for the company's collective development, due to the belief that teamwork achieves better results than that of an individual. In addition, the company's practices are always in full compliance of India's complex legal regulations governing the sector. Though transparency is another critical aspect of the organization, particularly in terms of dealings with customers and business partners, Ujjivan is adamant about business confidentiality. Senior management plays a large part in ensuring these values are upheld by themselves, employees, customers, and partners.
- » **EMPLOYEE INCENTIVES AND TRAINING:** Building a successful MFI requires more than product development and pricing; an agile and efficient staff is needed, where the MFI knows the skills needed, hires qualified individuals, creates a work environment that promotes commitment, and offers competitive compensation. For their work of targeting new customers,

UJJIVAN'S RESOURCES FOR MICROFINANCE		
Core Business Resources	Community Relations Resources	Community Stakeholder Resources
<ul style="list-style-type: none"> • Expertise and core competencies • Products and services • Training • Employees, including CRS • Three branch offices, with the goal of opening an additional nine 	<ul style="list-style-type: none"> • Relationship building • Partnerships with local NGOs 	<ul style="list-style-type: none"> • Expertise in finance and economic development • Information (through group mechanism) • Relationships in the communities among group members • Leadership • Assets, such as a group savings account

forming groups and centers, verifying loan proposals and documentation, providing feedback for new products based on customers' demands, monitoring loan utilization, and maintaining good relationships with customers and the local community in general, field staff need proper incentives to ensure their optimal performance. Ujjivan recognizes this fact, and views its human resources as strategic partners in executing their business and an agent of change in order to transform the livelihoods of the poor. As a result, the company currently offers a compensation package that includes a fixed salary of Rs. 2,500-2,800 plus fixed and variable incentives. In addition, the company offers an Employee Stock Option Plan (ESOP) for all employees. Ujjivan seeks to align its employees' goals with the company's by providing its staff with an ownership stake through an ESOP. The company's promoters have not held back in their desire to share wealth creation among employees and directors who have helped build the company.

In terms of training, CRS candidates are put through an intensive classroom and field training to enable them to understand the job, customers, environment, and the company's business practices. This means that, in addition to compensation, Ujjivan's staff also has the opportunity to acquire functional skills, industry knowledge, and leadership training, which can be further developed as individuals graduate to higher positions.

- » **FULL SELF-SUFFICIENCY/PROFITABILITY:** As a NBFC, Ujjivan has been set up as a profit-making venture. The goal is to generate a return on assets equivalent to returns expected in the private sector, without subsidies. Those MFIs that have already achieved this goal have certain features in common, including higher real interest rates as well as lower average salaries compared with per capita GDP.¹² These are factors that are largely within the control of the company's managers, including those who manage credit and human resources. As Ujjivan develops operational efficiency, achieving full self-sufficiency will depend on the promoters' commitment to this goal. This commitment will be illustrated as the company sets interest rates, controls costs, and manages its staff.

Conclusion

While Ujjivan's team has already overcome significant challenges in providing banking services to Bangalore's poor working women, growth and success will bring additional challenges.

- » **STAYING ON TRACK:** While Ujjivan continues to expand its range of products and services aimed at Grameen groups and SHGs, it has also begun thinking of offering products to individuals, as mentioned. In addition to servicing group graduates, Ujjivan's promoters are

looking to target individual vegetable vendors and workers in the garment industry, which employs possibly the largest number of women in the state of Karnataka. A majority of these employees work in factory settings. According to official statistics, there are 788 garment manufacturing units in Karnataka, of which 729 are in Bangalore. The total number of garment workers in Bangalore is 146,835, of which 103,039 are women.¹³ These figures do not include casual and contract workers. Given this large market of women who are working in sub-standard conditions, earning an average of Rs. 8 per hour, Ujjivan is looking to provide financial products and services to them to help supplement their low incomes.

However, due to high turnover in the industry and lack of strong information and/or social bonds, women working in the factories are often unwilling to guarantee their peers and friends under a group-based lending scheme. For this reason, Ujjivan will need to consider offering individual loans to this market, while somehow instilling the same sense of financial discipline achieved through group trainings and meetings. As the company moves forward, it will be critical that the Ujjivan stay on track with its goal of implementing financial structures that allow poor women to access available, untapped capital through groups, at least initially, such as Grameen or SHGs. Once the company has proven its viability and sustainability in the medium term, it may be better suited to offer diversified products, including individual loans, to a broader economic spectrum of women.

- » **MARKETING:** In light of the increasingly competitive market for microfinance in Bangalore, Ujjivan needs to continue an aggressive marketing effort to customers. Some branch employees observe that competitors may have more employees per branch, and that larger competitors regularly have people out on the street talking with customers about its offerings that do not require as much time and work, in terms of regular attendance of group meetings, for example. Although this issue affects Ujjivan's credit operations much more than savings, it is important that the company remain strong in all areas, especially as it rolls out housing and education products, in order to maintain its market position and profitability.
- » **EMPLOYEE INCENTIVES:** Despite the generally positive perception and effects of a staff incentive scheme, there are some negative effects to consider as well. The negative effects can include a problem of mission, where field officers shift their focus away from small, poor-focused lending towards relatively well-off clients in order to increase their incentives. There is also the possibility of erosion in the MFI's portfolio quality as field staff respond to incentives by offering larger loans or being less thorough in their evaluation of loans. Other potential drawbacks include less teamwork, an increasingly risk-averse field staff, a decrease in intrinsic motivation, higher operating costs, as well as the fact that incentive schemes do not reward overachievement. In general, the problems which may arise as a result of offering employee incentives are a result of flaws in the incentive scheme's design. Therefore, for Ujjivan to mitigate these information problems, the company may consider adjusting minimum requirements, weights allocated to performance indicators, as well as better and more frequent communication with its CRS team about incentives. The company's goal must be to create a work environment that promotes employee commitment. As Ujjivan moves forward, the company will have to face the challenge of designing and re-designing staff incentive schemes that succeed in improving motivation and productivity, particularly in terms of achieving greater financial performance, portfolio size, portfolio-at-risk, and even client satisfaction.

Even before its operations began, Ujjivan faced a number of constraints in India's urban areas. Given the diverse array of customers in cities, Ujjivan knew it would have to develop products that would match working women's actual use of credit. Once money is in the hands of borrowers, loan use can

13 Charan, Sahana. "Garment factory workers deserve a better deal."

become difficult to track, particularly since funds are shifted around through household expenditures. The organization overcame this challenge of monitoring loan use by working with field staff recruited from target areas, who have better access to information, in addition to conducting thorough, independent market research. The company's loan utilization check was also designed to follow through on the use of loans disbursed. Although Ujjivan has partnered with the Grameen Bank to conduct its operation as a Grameen replicator, it has developed a separate SHG business as well. These two approaches to delivering financial services to the poor not only expand the company's outreach but serve various market segments. Still, Ujjivan's promoters realize that a time will come when group-based lending models are no longer suitable for customers, particularly as women improve their situations and require larger loans. For these reasons, the company is continuing to adapt these models by following a customer-driven approach, and working closely with field staff to anticipate the future needs of clients that are ready to graduate out of groups. Ujjivan has overcome various distribution and operational difficulties relating to staff and space constraints by designing effective incentives and taking advantage of local resources within the communities which the company aims to serve. By focusing on creative solutions and always keeping clients in mind, Ujjivan has positioned itself as a major player in India's urban market for microfinance.

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SEWA BANK'S LIFECYCLE APPROACH

30 Years of Urban
Microfinance Inspired by Poor
Self-Employed Women



By Vanya Pasheva
& Manasee Desai

Overview

SEWA Bank is one of the oldest microfinance institutions in the world, predating even the Grameen Bank of Bangladesh. Registered as a Cooperative Bank in 1974, it has been pioneering individual lending in the urban setting of Ahmedabad for over 30 years. SEWA Bank is a unique institution in many ways—not only is it one of the only MFIs that offers a comprehensive set of microfinance services (from savings to lending to capacity building), but it has remained financially self-sustainable since the beginning of its operations. Moreover, its unique form of governance defines the development path that SEWA Bank has taken over the years. Each SEWA Bank account holder is entitled to buy shares in the Bank; borrowers are required to be shareholders. Each shareholder has one vote which ensures a democratically governed MFI, giving an equal voice to both more as well as less wealthy members. This has ensured that the Bank evolves together with its members and has inspired it to develop a composite approach to microfinance and a full-range of services.

Urban microfinance institutions face similar constraints—building client loyalty in the ever-changing urban environment, mitigating risk and responding to the hugely varying needs of a diverse urban population. The following case study focuses on the development strategies that have made SEWA Bank what it is today, an MFI that stays close to its members and follows an open-minded innovative approach that responded both to the needs of the community as well as to the life-cycle needs of the individual member.

Introduction

As the oldest microfinance institution in India and one of the first in world, the Shri Mahila SEWA Sahakari Bank (SEWA Bank) is a prime example of how flexibility and a close ear to the needs of poor clients and flexibility can enable an organization to conquer the challenges present in the urban context. Since its inception in 1974, SEWA Bank has vigilantly identified the various needs of its clientele through evaluations and constant feedback from members. SEWA Bank's philosophy is to focus on a woman's financial needs throughout her life-cycle and offer a variety of financial products for those life-cycle needs, complimented by capacity building courses. For over 30 years, SEWA Bank, together with its sister organization SEWA Union,¹ have fought hard for the social and political rights of its members in an effort to not only satisfy their financial service needs but also to ensure that they are accepted and integrated in the vibrant economic scene of Ahmedabad, the economic capital of the state of Gujarat. From lobbying for licenses for its vendor clients in the 1970s through its newest pension scheme, SEWA Bank has been working to include poor women as participants in the Indian economic growth story.

BACKGROUND

In the early twentieth century, Ahmedabad, the economic capital of Gujarat, was a bustling center for the Indian textile industry and was often called the Manchester of India. Immigrants from all over the country came to work in its ever-growing textile mills after World War I. However, in the late 1960s, the textile mill industry suffered a sharp decline due to loss of competitiveness vis-à-vis imported higher technology production. After two major mills shut down in 1968, Ela Bhatt, head of

¹ SEWA (Self-Employed Women's Association) is a trade union registered in 1972 with a mission to organize self-employed women workers for full employment and self-reliance through struggle and development.

the women's wing of the Textile Labor Association and founder of what was to later become SEWA Union, noticed an unusual shift in the economic landscape of the city. While male mill workers were protesting to get the mills reopened, their wives were taking on financial responsibilities by engaging in informal occupations. They were becoming part of the over 350 million informal workers in India who account for 90% of the total workforce of the country.

Prior to forming a union, unorganized female workers were vulnerable to the many hardships characterizing informal employment. For example, women were exploited by middlemen and moneylenders, by suppliers and wholesalers; and their work often suffered due to the lack of a formal relationship with the police and authorities. To respond to the rising needs of the self-employed women of Ahmedabad and give them a voice to lobby for their rights, Ela Bhatt founded SEWA Union in 1972 together with women from different walks of life including rag pickers, beedi rollers, and tailors.² This group of community leaders and thousands more poor self-employed women would later become the shareholders and members of SEWA Bank.

Some of the first steps of the union were to assist its members with setting prices with suppliers, gaining protection from the police, and addressing the lack of credit access. Despite these initial gains by the union, the lack of access to formal credit and financial services remained a major problem which rendered SEWA members highly susceptible to shocks, dependent on middlemen and moneylenders and unable to expand their businesses.

In 1969, the Indian government nationalized all private banks making it compulsory for all mainstream banks to extend their reach to the poor. This legislation proved to be premature as banks were both unable and unwilling to assess the creditworthiness of poor clients. In response to this situation, SEWA attempted to bridge the gap its union members and the banks by serving as a liaison.

Challenges in Banking the Urban Poor

EARLY LESSONS

For a variety of reasons, the relationship between poor women and the formal banking system did not endure in the long-run. It was during this initial period that SEWA identified specific needs that had to be addressed in order to provide poor women with sustainable access to credit. There were a number of social barriers to cross, including the fact that bank employees were not accustomed to interacting with female customers who dressed, groomed, and spoke very differently from their middle-class and wealthy counterparts. This situation was worsened by an increasing degree of discomfort among poor women in approaching formal banking institutions, due to reasons ranging from class structure insecurity to the guards bearing guns at a bank's doors.

In addition to social difficulties, the traditional banking system was not practical for urban SEWA women who often worked long hours and had difficulty visiting bank branches within the rigid time schedule. Transportation to and from the bank office could be costly and often the travel expenses associated with depositing loan installments exceeded clients' deposits.

From the bankers' perspective, there was a great deal of difficulty in establishing the creditworthiness of SEWA women due to already well-known barriers present with lending to the poor: illiteracy, and lack of collateral, steady income, and credit history. In addition, a fundamental problem existed in

² Rag picking, beedi rolling and tailoring are common professions in Ahmedabad. Beedis are popular hand-made cigarettes. At least 20,000 people in Ahmedabad are involved in beedi making and are paid by piece produced with materials provided by a wholesaler. They are paid less than \$1 for 1,000 beedis produced. Rag pickers collect and sell scrap material.

terms of establishing clients' identities since few had formal first and last names. As a result, banks typically associated banking with the poor with high levels of risk and difficulty.

Despite these problems encountered by the formal sector, SEWA persevered and a number of women, who were taught how to sign their names, were initially awarded loans of Rs. 500 each in the early 70s. However, the self-employed poor women who make up the membership of SEWA were used to living on a day-to-day basis from their meager earnings. They were unaccustomed to possessing such large amounts of money and feared storing funds at their homes. Generally, those who kept savings hid their money in containers within the house or buried in the backyards. These measures left funds highly susceptible to wasteful expenditure by women's husbands and /or burglary by relatives or neighbors. To avoid this, women often paradoxically stored their money with informal moneylenders and middlemen. These deposits were difficult to retrieve when needed, and women were frequently cheated by the moneylenders and could not recover the deposited amount at all. SEWA's leadership realized that perhaps even more than access to credit, women needed a safe, reliable and easily accessible place to keep their money and assets. In other words, urban self-employed women required savings services tailored to their needs and working schedule that the formal banks were not in a position to provide.

"We are poor, but we are so many!" This need was expressed during a routine SEWA union meeting in 1973, when one of the members, Chandaben, an illiterate seller of old clothes, suggested that SEWA set up a bank of its own, "our own women's bank, where we are treated with the respect and service that we deserve." SEWA members should no longer have to confront the skepticism of formal bankers in suits or the high charges of moneylenders. "We are poor, but we are so many!" SEWA members responded to the natural concerns of the leadership who worried that setting up and running a bank for and by illiterate poor women was an impossible task. The idea was taken up and SEWA Bank was created by raising the required amount of capital from 4,000 women contributing Rs 10 each. This beginning reflects the fundamental SEWA Bank philosophy of giving ownership of the bank to the members and maintaining a bottom-up management and development strategy inspired and driven by their needs.

Over the past 32 years, SEWA bank has, through constant feedback from its clients, identified and come up with innovative solutions to the common problems facing many MFIs today: ***targeting, clearing old debts, identification, risk assessment, empowerment, capacity building, insulation against shocks, and sustainability***. Moreover, the occupational and social diversity in the cities poses a further challenge to the organizations operating in the urban context vis-à-vis those working in the rural areas with target groups characterized by homogeneity and stronger social bonds. The rest of the case study will outline SEWA Bank's often pioneering efforts at addressing the challenges of providing microfinance services to the urban poor with a particular focus on providing solutions to common problems through a well-targeted and innovative range of products and services tailored to the needs of the urban self-employed woman at every stage of her life-cycle.

IDENTIFICATION

Unlike in the village where people have worked and lived on their land for generations, urban life is characterized by constant movement and fluidity. The familial linkages and established rural social networks so prevalent on the village are often irrelevant in the city. This presents a challenge to any organization trying to offer financial services to the urban poor. The costs associated with tracking, monitoring, and recovery increase, as does risk of default. Thus, despite the provision for serving the weaker sections in the Bank Law of 1969, the actual implementation by the formal banks was nearly impossible due to their inability to verify the identity of the borrower. Many women lacked official last names and forms of identification. It became clear that SEWA had to formalize not only the

work situation of its members, but their identity as well. To this day, board members help assign ration cards and other forms of identity to new loan applicants lacking these documents. It is important to note that SEWA did not formalize the identity of its clients only for the purpose of loan applications but so that its members could become participants in the Ahmedabad economy by attaining employment rights and recognition which would allow them to realize their economic potential.

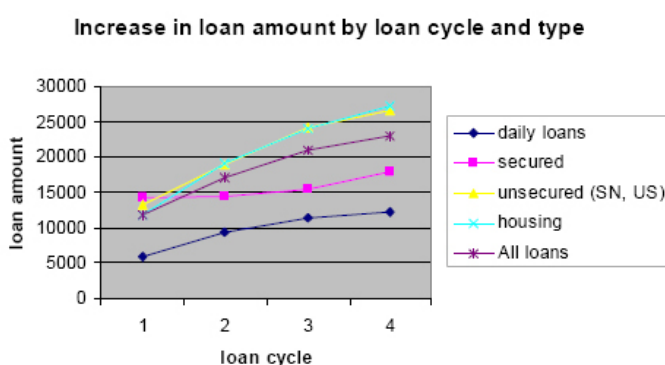
SEWA Bank has gone a long way since the initial days when Ela Bhatt had to teach the women how to sign their names in order to get a formal bank loan. Through capitalizing on the informal networks in the community, through maintaining personal contact through the Bank Sathis system,³ and through distributing passbooks to every client, SEWA Bank has overcome this obstacle.

RISK MANAGEMENT

Risk management of the loan portfolio becomes a particular challenge when the client is unable to provide collateral against the loan. Popular microfinance models, such as joint-liability groups (JLGs) developed by the Grameen Bank in Bangladesh or self-help group (SHGs) in India, cope with this problem by employing group lending models which use social collateral in lieu of assets and resolve the problem of asymmetric information. Nevertheless, while group lending decreases risk and transaction costs to the MFI, it is suboptimal in the urban context. In the city, the members are of mixed occupational and social backgrounds and thus with very different capital requirements. In addition, long work hours in various places make it hard to attend group meetings.

From its beginning SEWA Bank has taken the more challenging path of individual lending in its urban operations. It is one of the few MFIs in the world to give large uncollateralized loans to poor individuals. Over the years, SEWA Bank has designed a sound screening mechanism which relies on informal social networks and allows SEWA to keep its NPA rate under 12% and default rate about 3.4%. Interestingly, these requirements are met despite the fact that SEWA remains flexible and accommodates the irregular income of clients.

In the course of its 30 years of experience, SEWA Bank has managed to overcome the problems of adverse selection, moral hazard and lack of collateral inherent in individual lending by applying a four-pronged approach: first, clients must demonstrate regularity of savings for about 6 months before they can take out their first loan, thus developing a financial discipline and history, and establishing their creditworthiness. Second, loan size increases from cycle to cycle allowing clients to establish their credit history and regularity of repayment. Typically, a first loan would be in the amount of Rs 11,700⁴ while the second loan is Rs 17,000. The chart below visualizes the growth in loan size according to the type of loan. As can be expected, the graduation is less pronounced in the case of secured loans. Third, although the loan is individual, SEWA Bank relies heavily on social networks to manage risk and prevent defaults, through guarantors and community leaders. In order to take out a loan, the borrower must find two guarantors to co-sign the loan, one of which can be a family member. Finally, SEWA Bank's loan officers maintain daily contact with the clients, offering savings collection and loan services, thus closely monitoring the financial situation of the borrower. In addition, a good data management and information system allows SEWA Bank to keep track of its portfolio and promptly notify irregular borrowers.



³ Bank Sathis are SEWA Bank's agents. The concept is described in more detail in the Targeting and Outreach section.

⁴ All calculations in the paper are done by the authors based on data provided by SEWA Bank unless indicated otherwise.

SEWA Bank also conducts financial literacy trainings which educate clients about the importance of saving, planning, maintaining financial discipline and repaying.

OUTREACH AND TARGETING

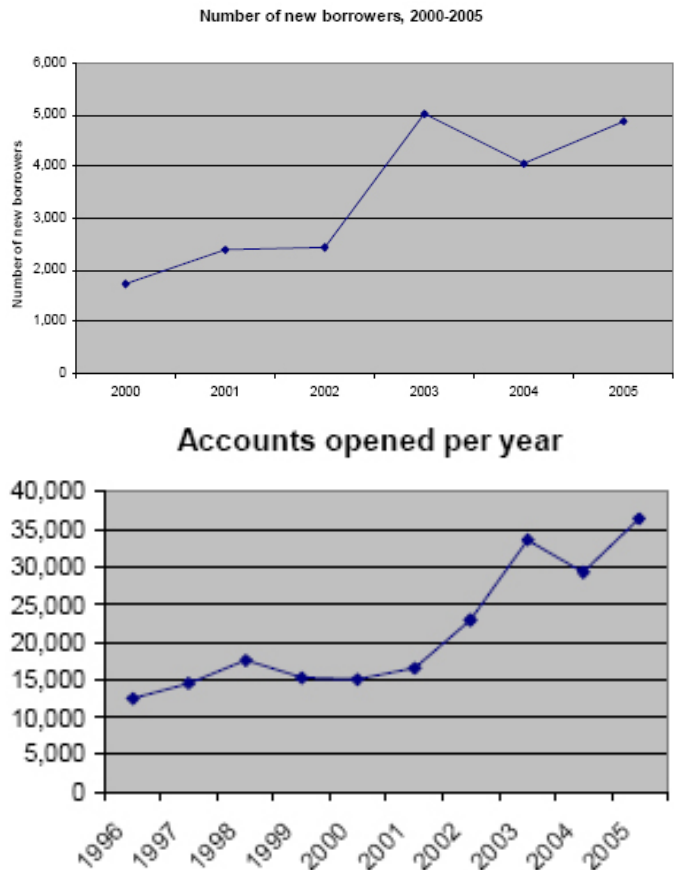
With a growing number of customers and a need for specialized products and services, SEWA Bank needed to establish a system that could independently sustain its growth. At the same time, the diverse subgroups which make up its urban membership ensure that there is no blueprint or single strategy to be followed in maintaining growth. Outreach aimed at including the different Ahmedabad communities relies on institutional flexibility and the semi-formal supply channel of “handholders” and “Bank Sathis”. This channel not only allows efficient distribution of products and services to the doorsteps of the clients, but also ensures an astoundingly smooth bottom-up communication from the individual SEWA Bank member to the top management.

The first step in creating this system was to formalize the mechanism of outreach by creating “handholders”—staff members responsible for maintaining a portfolio of clients distributed by area—responsible for things like attracting new clients, sanctioning loans, and monitoring collection. An initial drop in growth occurred during a transition from using SEWA Union leaders as promoters; however, business picked up again within a year. The figures on this page represent this transition period. The sharp rise starting in 2000 can be attributed to the introduction of the Bank Sathis as SEWA Bank's agents. Bank Sathis are women who have been SEWA Bank client for a long time, are familiar with the products and the bank, are literate, and have good numeric skills. A bank sathi must be from the area she is serving and enjoy the trust of the people in the community.

Each handholder coordinates approximately 10 Bank Sathis who work in a particular area and collect savings and loan repayments as well as promote new Bank products and services. They ensure close daily contact with the clients which is essential for screening and monitoring of the portfolio.

FROM “TARABEN THE MOBILE BANK” TO DOOR-STEP SERVICES THROUGH BANK SATHIS

In its early days, SEWA Bank had an unusual employee—“Taraben the mobile bank”. Taraben went from house to house to recruit women for savings and loans products. “Even if you meet with just two women in an area, over time you can establish their trust and they will inspire ten to start accounts,” Taraben would say. Whether too busy with their business to make it to the bank, or too timid to venture far from home, Taraben’s mobile bank services made a world of difference. Today, SEWA Bank has scaled up the innovative and dedicated practice of Taraben into the activities of nearly 100 Sathis bringing the Bank to the home of each member.



The incentives for Bank Sathis were designed in a way to encourage outreach and rapid, but well-monitored growth. While they are not employees of SEWA Bank, they are paid a commission of 3% on the installments they collect and 1% on the savings collected. This encourages them to service a greater number of clients and also stimulates the collection of

savings instead of focusing only on the promotion of loans. In addition, there are also safeguards on Sathi activities which include a requirement that Sathis keep a security deposit of Rs 15,000 in a special account in the bank; the bank has the ability to freeze the commission in case of delinquency and a cap is placed on the number of installments on which a Sathi can collect commission in order to ensure that Sathis will not misuse their powers.

Aside from introducing the system of handholders and bank sathis, in 2001 and 2002 Sewa Bank opened its three largest centers which helped it reach out to new areas and allowed it to serve a larger number of customers by decentralizing its activities.

Another effective tool for increasing outreach over the years has been the introduction of innovative products suited to the specific needs of SEWA Bank's clients or client subgroups as described in more detail below. Combined with efficient grassroots marketing campaigns these new products have attracted marginalized client groups—such as vegetable vendors or daily wage construction workers and rag pickers—into the SEWA Bank client pool. In addition, the trust that SEWA Bank enjoys among its client base helps it roll out innovative products quickly and efficiently through the Sathi channel. More recently, the efficiency of this process was demonstrated when, in the span of about two months, SEWA Bank staff enrolled more than 30,000 women in its pension scheme opening a record number of savings accounts.



Life-cycle needs (courtesy of Sewa Bank)

PRODUCT DIVERSIFICATION: THE LIFE-CYCLE NEEDS

Life-cycle Needs

An organization aiming to effectively provide financial services to the poor invariably faces the dilemma of product diversification. Offering a wider range of products helps the organization not only mitigate its exposure to risk, but also target specific client subgroups. This client differentiation is particularly necessary in the urban context where the occupational, social and economic diversity call for a highly diversified range of products. SEWA Bank has been extremely attentive to the diverse set of needs of its client pool and has diversified its product portfolio along two main lines: it has

designed both products tailored to the various requirements of different occupational client subgroups—for example home-based workers vs. vendors—as well as products mapping the life-cycle of the woman from childhood to old age.

Starting with a simple savings and a simple loan account, over its 32 year history, SEWA Bank has evolved to a composite financial institution offering integrated services to its clients ranging from savings and recurring accounts, to fixed deposits and a variety of secured and unsecured loans; it has added insurance and ventured into a variety of partnerships with the government (Ahmedabad Municipal Corporation), private sector and non-governmental organizations in order to provide integrated solutions to the needs of its clients. Inspired by close studies of the needs of the clients, today SEWA Bank offers more than 40 differentiated products. Ms. Jayshreeben Vyas, Managing Director of SEWA Bank, describes the process: “We looked at their life-cycle needs and have come up with various saving products to mirror those needs—various recurring accounts, savings for buying gold, for education, for marriage, for old age, etc. Similarly, we have developed a range of products within credit.”

SEWA Bank distinguishes three broad types of needs that necessitate different financial strategies: predictable needs, unexpected shocks, and income-generating activities. These needs not only mirror the life-cycle of the individual, but can be applied to the process of capital formation in an effort to provide the most appropriate financial services at the different stages of economic growth for the household. A SEWA Bank client starts at negative capital since most often her family is already indebted to the moneylender. SEWA Bank offers its members the means to come out of the clutches of the moneylender by taking out a low-interest (18%) loan to pay off past debt, and by enabling the woman to create her own assets through savings and insulate herself from shocks such as natural disasters and sickness through insurance.

There are common life-cycle needs such as pregnancy, education, marriage, old age, and various yearly festivals and ceremonies. Due to their predictable nature, these needs can be addressed with savings and SEWA Bank has designed a variety of specialized recurring deposits to allow women to plan for their future.

Additionally, for income-generating activities where a business investment is supposed to generate a return that would pay back the loan, SEWA Bank offers loans. Finally, for unexpected shocks that may throw a family back into the poverty trap or destroy its assets, SEWA Bank provides insurance.

Product	Clients (%)
Borrowers	22% of clients
Repeat borrowers	44% of borrowers
Unsecured loans (US, SN, PH, DL)	76% of borrowers
Secured loans (FO, OC)	21% of borrowers
Housing (PH)	24% of borrowers
Recurring Deposits	25% of clients

The table to the right summarizes the approximate breakdown of the client pool in terms of services used. Out of approximately 150,000 urban SEWA Bank clients 34,000 have taken at least one loan, and nearly half of the borrowers are repeat borrowers. The preference for unsecured loans is apparent.

SEWA Bank's products have come out of close interaction with their clients as well as research. For instance, one of the findings of a study conducted in 1999 by Martha Chen and David Snodgrass of Harvard University was that women were still resorting to the services of usurious moneylenders. They also found that women preferred to save regularly in Rs 40-50 increments. At the same time with the help of FIDUS, a French

NGO, SEWA Bank designed an exposure program for research and development of new products. It encouraged its staff members to spend a number of days living with a client, documenting her life story and needs, and designing new products based on the experience. As Ms. Vyas puts it, "We

EXAMPLE CALCULATIONS FOR MARRIAGE COSTING Rs 60,000

	Recurring deposit @ 8% per year		Loan @ 5% per month (flat/reducing)	
	18 yrs	10 yrs	Reducing, 7 yrs	Flat, 10 yrs
Monthly installment	125	300	3,000	3,500
Cost of marriage	60,000	60,000	60,000	60,000
Amount paid/deposited	27,000	36,000	243,000	420,000
Interest gained/paid	33,536	19,550	-183,000	-360,000

have to remain close to our customers. If somebody will ask—what is the learning point?—[banking the poor] is a relationship, trust, and not simply a customer service."

Marriage, Education, Daily Savings and Fixed Deposits

A common trend observed about the users of microfinance is the lack of long-term planning. The poor are used to borrowing whenever the need arises and less than 30% of them have any kind of savings account according to a survey of 2,000 households conducted by the Poverty Action Lab and Centre for Micro Finance in Hyderabad. "Our clients are people who live and think on a day-to-day basis, from one crisis to another," says Jayshreeben pointing to one of the biggest problems to be addressed

before microfinance can claim that it is a tool for long-term poverty alleviation.

The rationale behind educating women to start planning for their future is simple. Savings can reduce the cost of a planned event exponentially. In 2000, SEWA Bank began a financial literacy campaign, teaching women the meaning of income, expenditure, business, and planning. To

date, more than 10,000 account holders have passed financial literacy training. As much as it was a strategy for ensuring take-up of products such as recurring deposits and savings schemes, financial literacy inspired women to start planning for the future. The success of the program has lead SEWA Bank, the Indian School for Microfinance for Women, and Citigroup to start a nationwide campaign urging MFIs throughout India to promote financial literacy training for their members. Since 2005, SEWA Bank has offered business training as well, helping women manage their business more efficiently and maximize profits.

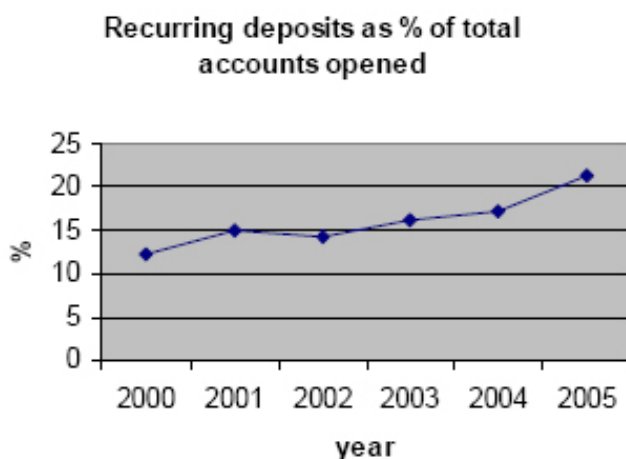
The popularity of recurring deposits has been steadily growing over the years and as many as 25% of the SEWA Bank clients plan for their future through regular savings in a recurring account. About 15% of accounts are recurring deposits. The Jeevanasha daily savings scheme and the “worry riddance” recurring deposit are by far the most popular SEWA Bank products, surpassed in number only by the compulsory savings account and the simple unsecured loan. “Our clients have gradually started converting their savings into investment,” says Ms. Vyas.

SEWA Bank has made an effort to facilitate the process by offering a variety of products such as accounts for marriage, for education, or for gifts that help women compartmentalize their thinking about important life-cycle events. These savings accounts have been designed to match the income cycle of women. For instance, the Jeevanasha scheme introduced in 2000 has remained popular with daily wage earners such vegetable and flower vendors, manufacturers of stoves, and snack makers and vendors.

THE JEEVANASHA DAILY SAVINGS SCHEME*

Jeevanasha (meaning Life Hope) is an emblematic SEWA Bank product—it came as result of demand from daily wage earners within the SEWA membership who needed a service that matched their income cycle. Without a convenient way of saving, the women were prone to small unnecessary expenditure and lived without long-term planning. SEWA Bank launched Jeevanasha in 1999 with a minimum daily saving requirement of Rs 5 for one year. Interest is credited every six months at 4% p.a, according to the guidelines of the RBI. After the initial year, women can either withdraw their savings, transfer them to a fixed deposit account with a higher interest rate, or use them as a guarantee for a loan. In fact the average Jeevanasha account holder has been saving for more than 2.5 years and nearly 8% of urban SEWA Bank members hold a Jeevanasha account.

**information is based on Jeevan Asha brochure, SEWA bank, and authors' calculations*



Pension

Livelihood during old age is a major problem for SEWA Bank's self-employed women as they cannot depend on State benefits and social security when they are unable to work. Lack of financial security for the elderly poor is also linked to other societal problems including female infanticide and overpopulation. Relieving these women from suffering and ensuring that they spend their non-productive years with dignity has been a cause SEWA Bank has worked on for a long time.

The first recurring deposit designed in lieu of a pension scheme was started in 1993 with 7% interest rate and quickly gained more than 3,000 customers. A modified version of the pension scheme was introduced in 2002 and brought the enrolled number of members to 5,700. Employing recurring deposits as a substitute for a full-fledged pension scheme was necessitated by RBI regulations which state that a pension scheme must have at least 15 years of tenure while at the same time the RBI capped SEWA Bank recurring accounts to 10 years.

In the beginning of 2006, SEWA Bank and UTI Bank came up with an innovative idea that will not only allow the self-employed women, who are currently deprived of formal old-age benefits, to invest in their retirement, but will also allow them to benefit from India's growth by investing in the booming stock market. The installments (sums in multiples of Rs. 50) are collected by SEWA Bank and invested through a UTI mutual fund in government securities and stocks in a ratio 60:40 with an expected return of 10% per annum. The scheme is open to all clients, including new clients, between the ages of 18 and 55 with a minimum duration of 15 years, and women can either get a lump-sum or a monthly pension upon reaching 58 years of age. All transactions are routed through the member's SEWA Bank savings account. Since April 2006, SEWA Bank has enrolled an impressive 30,000 women for the pension scheme.

Although this program is at too early a stage to be evaluated, and although the appropriate risk mitigation mechanisms may still need to be improved and developed, interest has been expressed by other MFIs and organizations to replicate the model and enable poor self-employed women to provide for their old age and take part in India's growth.

Insurance

In 1981, one of the first SEWA members passed away. The tragedy of the loss was exacerbated by the fact that her family was so poor that they could not afford the cloth to wrap her body. It became a common consensus among fellow SEWA members that the "cloth we are wrapped when we die should be SEWA's"

This story is seen as the event that triggered the launch of an insurance product for SEWA. Nevertheless, the need for insurance had been building up for years. As SEWA's members were employed in the informal sector and not recognized as workers, they were deprived of compensation in times of accident or sickness. This made them highly vulnerable to even small shocks which would not affect people of similar economic status but with regular income. In fact, a survey of 100 defaulters conducted by SEWA Bank confirmed that the roots of default could often be traced back to shocks such as maternity, sickness, asset loss, or bad weather.

In 1981 SEWA Bank started its first life insurance scheme in partnership with LIC in which women would pay a premium of Rs. 6 for a compensation of Rs. 1,000. To overcome the initial hesitation of LIC that women may not be able to pay the premium, SEWA Bank set up an insurance-linked fixed deposit—the premium was automatically paid by the interest gained on a Rs. 100 fixed deposit with interest rate of 6%. This system is still in place and now covers accident, sickness, maternity, and death in the household; about 32,000 members and their families benefit from it.

Today, SEWA's insurance is administered through VIMO SEWA, SEWA's insurance wing. Insurance serves a dual purpose for SEWA Bank. While it helps women shelter themselves from economic shocks that may destroy their capital, it also insulates the bank against default. In fact, since 2001 it has been compulsory for SEWA Bank borrowers to buy insurance for both themselves and their two guarantors.

Business needs and livelihood

In addition to providing women with the means of dealing with crises by making savings and insur-

ance products available, from its inception SEWA Bank's focus has been on helping women become free of the reliance on moneylenders by providing them with the means of nurturing their business. SEWA Bank started with a simple unsecured loan account which has gradually evolved to cater to a variety of needs such as investment in business and equipment, housing, or daily working capital. The Bank also offers a range of secured loans given against jewelry, fixed deposits, or government securities.

1. **SANJIVANI LOANS AND UNSECURED LOANS:** The most popular loan accounts are the simple unsecured loans up to Rs. 50,000 with tenure of 35 months and decreasing balance interest rate of 18% p.a. The "sanjivani loan" is very similar to the unsecured loan but was designed particularly to address the needs of the thousands of unemployed textile mill workers who suffered the collapse of the textile mill industry in Gujarat. As the textile mill workers were used to operating machines, the sanjivani loans were of slightly larger amounts in order to allow the husbands (most often) to set up businesses which might require a large initial investment for equipment. 78% of SEWA Bank's borrowers have taken at least one unsecured loan. Out of all loan accounts since 1998, 46% are for unsecured and sanjivani loans.
2. **DAILY LOANS:** After a research project lead by Martha Chen and David Snodgrass of Harvard University demonstrated that despite the wide range of products offered, SEWA Bank members still remained dependent on the services of moneylenders, it became apparent that certain groups of members were unable to fully benefit from the services of the bank. The existing SEWA Bank products were not suited to the needs of members with daily working capital requirements and a daily income cycle. Thus, for small amounts, professions such as vendors remained dependent on daily loans from moneylenders whose interest charge consumed most of the daily profit. To address this issue, in February 2001 SEWA Bank introduced Daily Loans—smaller sized loans collected by the Bank Sathi on a daily basis often directly from the market or workplace of the borrower. This product complemented the Jeevanasha Daily Savings scheme which had already proven highly successful with daily wage earners and small business owners.

Following a slower takeoff, in 2003 SEWA Bank encouraged the Sathis to actively promote the new product. There is an increase in both savings and loan accounts of home-based workers after 2001 which can be linked to the opening of SEWA Bank Centres and the introduction of the Bank Sathis which brought SEWA Bank to the door steps of its customers. Nevertheless, this effect is much less pronounced when one looks at vegetable vendors. In contrast, the promotion of daily loans in 2003 impressively increases the loan take up of vegetable vendors to a point that supercedes the number of new savings accounts opened for the same period. The daily loans were particularly popular with women involved in occupations with daily working capital requirements who previously relied on middlemen and brokers who sold them the daily stock on credit at 5%-10% interest rate per day. As a result, more than 16% of vegetable and flower vendors in the SEWA Bank member pool have taken at least one daily loan.

This marked increase in the number of new borrowers, led by SEWA Bank's active promotion of daily loans in 2003 points to the fact that daily loans successfully responded to the needs of a population which had previously been excluded from the borrower pool. Nevertheless, it is interesting that the popularity of daily loans was not maintained after 2003 and take up observed in the data dropped. While this can be due to a variety of reasons, it may be worth exploring whether the success of the daily loans was uniquely due to a product design that closely mirrored the income cycle of the borrower or whether it provided a product with decreased guarantor (the bank sathi could act as guarantor) and security requirements

which allowed new customers to build the loan history needed for taking out larger unsecured loans.

- 3. SECURED LOANS:** Secured loans are given against collateral such as jewelry or government securities. The amount disbursed is 70% of the value of the collateral and the interest rate is 12% per year. Secured loans are designed to allow the woman to take advantage of her often only personal asset—her jewelry. These loans are popular with slightly better off clients who can afford to provide collateral, as well as with clients who need quick access to cash or are unable to provide an acceptable guarantor. Roughly 18% of SEWA Bank's borrowers have taken out a secured loan.

Year	Housing	US/SN	housing as % of unsecured loans
1998	9281	14802	1%
1999	13584	14115	20%
2000	14254	15001	23%
2001	14875	15225	24%
2002	17112	17356	17%
2003	17257	17150	16%
2004	17036	17188	15%
2005	20687	20814	18%
2006	23609	21816	25%

Housing

SEWA Bank has recognized that one of the major life-cycle needs of its members is housing. SEWA's customers needed to live in houses where they can bring up their family with dignity, be productive in their home-based business, and feel confident about the safety of their family and their assets. In 1998, SEWA Bank started a housing scheme in partnership with HUDCO. Unsecured housing loans financed by HUDCO carried an interest of 14.5% while secured housing loans (against jewelry or property) were financed by SEWA Bank and carried an interest of 17% up to Rs. 25,000 and 18% for amounts above 25,000.5 Moreover, savings was an integral part of the process—in order to take out a housing loan of Rs. 50,000 a member had to save Rs. 20,000 in a 5-year recurring housing savings scheme.

The demand has been substantial and nearly 25% of borrowers have borrowed for housing. With a majority of its members working from home, the distinction between productive business loans and housing loans is blurry in the case of SEWA Bank. In fact, approximately 46% of the women taking a loan for housing purposes (not necessarily a “housing” loan) are directly engaged in home-based, income-generating activities such as beedi rolling, sewing and embroidery, or incense stick making. The housing loans and the business loans (sanjivani and regular unsecured) are of strikingly similar size. Moreover, despite the fact that the housing loan can be repaid in up to 60 months while the term of the microenterprise loan is 35 months, only about 50% of the loans taken for housing purposes are “housing loans”—approximately 20% are secured loans and 30% are microenterprise loans. SEWA Bank data shows that the average “housing” loan amount has remained relatively low at Rs 17,720 while the average repayment period is only 19 months. These facts combined with the observation that 15% of the housing borrowers have taken out multiple housing loans emphasize the preference of the urban poor toward incremental building and maintenance rather than new construction.

BUILDING CAPACITY

Another characteristic of the urban context in which SEWA Bank operates, which may be less prevalent in rural areas, is the increased opportunity for occupational and economic mobility. To benefit from the opportunities in the bustling city, however, self-employed women need to be entrepreneurial and business savvy. Activities such as classes on literacy, media, and leadership conducted by SEWA

Bank, and its sister organizations—the Indian School for Microfinance for Women, SEWA Academy and the Mahila SEWA Housing Trust—help women develop the necessary numeric and planning skills for expanding their businesses, or to develop specific professional skills that will allow them to move from poorly paid unskilled labor to more competitive skilled occupations. In addition, the various legal battles fought by SEWA Union contribute to the women's self confidence and sense of political empowerment. This process is not only beneficial to the SEWA Bank members. In fact, it allows SEWA Bank to insulate itself from default by strengthening its base through capacity building. This not only helps decrease the risk of non-performing assets or default, but also leads to higher product take up and loan investment in more productive, high-return ventures. Following the impact of financial literacy and business counseling trainings in Ahmedabad, SEWA Bank has started a nationwide campaign to encourage MFIs to provide microfinance recipients with similar capacity building opportunities in other parts of the country.

Conclusion

SCALABILITY AND WAY FORWARD

SEWA Bank has been a financially sustainable institution since its beginning with average profit of Rs. 4,678,167 over the past 5 years. The Bank has been growing at an impressive rate; deposits have grown at an average 27% per year since 1999 while average annual growth for the same period for number of loan accounts and loan disbursement has been around 15%.⁶ Moreover, over the past 30 years it has developed a comprehensive range of products and services and has established itself as the main (and virtually, the only) microfinance provider in Ahmedabad, the 5th largest city in India. Operating in the dynamic urban context has taught SEWA Bank to be flexible and innovative in its operations and targeting. It has overcome the challenges inherent to providing financial services to the poor in big cities, such as lack of collateral, asymmetry of information and difficulty in identification. Important steps in this process have been institutionalizing the informal social networks at the ground level through the bank sathi and guarantor systems, forging partnerships with other organizations—within SEWA and beyond—to be able to provide a wide array of services and keeping a flexible and open attitude that allows it to evolve together with its members. At the same time, its unique governance structure,⁷ combined with visionary and dedicated management, have ensured that, true to its mission, it seeks inspiration among its members and remains demand-driven.

SEWA Bank currently caters to the needs of approximately 150,000 poor self-employed women in Ahmedabad. A conservative estimate would place the number of potential clients at 450,000 only in urban Ahmedabad. Meeting this demand presents both challenges and opportunities.

In recent years, SEWA Bank has adopted a strategy of saturation—i.e. entering an area and enrolling as many members as possible before moving on to the next area. This has demanded a very proactive approach of going to new areas, setting up new centers (currently there are eight centers/collection centers around Ahmedabad in addition to the main office). In addition, there has been increased focus on developing flexible products that would respond to the needs of the modern SEWA Bank member. After the introduction of the mobile phone loan in 2003, SEWA Bank has recently aimed to increase flexibility through a prime client overdraft facility as well as a daring “express track loan” which can be given to new members within 10 days of opening a savings account provided that they attend financial training.

⁶ Figures are based on SEWA Bank's Annual Report for 2005.

⁷ The Board of Directors of SEWA Bank is made up of women, who are themselves involved in occupations common to SEWA Bank members, such as rag picking, bidi rolling, stitching, etc. About half of the Board Members are illiterate.

Nevertheless, there are at least two broad areas that need to be addressed before SEWA Bank can expand to serve the needs of its potential market. The first challenge is associated with personnel constraints, in particular the Bank Sathis. Bank sathis are usually nominated from among the loyal clients of the Bank and are appointed only after the members in the particular area declare their trust for the new sathi in a large member meeting. Keeping in mind the rate of growth that SEWA Bank envisions in the coming years, a large number of new Bank Sathis may need to be recruited which may lead to a decrease in the overall reliability of sathis unless a better system of monitoring is devised.

The other main challenge that SEWA Bank is in the process of resolving before launching a larger-scale expansion campaign is implementing a stable MIS system that can sustain its growth. This will enable SEWA Bank to better monitor the performance of its portfolio along a variety of indicators—including products, areas, Bank Sathis, or loan officers—and will allow it to depersonalize its relationship with clients. This relationship is currently heavily dependent on personal staff/sathi-customer relationship and informal social networks which may not be institutionally sustainable. Currently, each transaction is recorded on a receipt in three copies: one for the bank, one for the client, and one for the sathi. All data is computerized and tallied at the end of the day. Recently, SEWA Bank piloted using SIMputers, small handheld computers, and finger-print enabled smart cards to keep track of field transactions and update the information in the principal system at the end of the day. However, logistical issues with the inability to transmit account information to the main MIS in real time have temporarily suspended the project until the issue is resolved. Additionally, an improved MIS system combined with the SEWA Bank's existing wealth of data, could make it possible to develop a credit rating mechanism which can streamline the loan sanctioning process. This would decrease both risk and transactions costs to the bank and allow it to expand in new ways.



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WORKING WOMEN'S FORUM

Invisibility to Visibility



By Usha V Somasundaram

Overview

The Working Women's Forum (WWF) was created in Chennai in response to a growing need to organize women residing in slums and working in similar occupations, such as small-scale traders and vendors. Founded by economist and long-time activist within the Congress party Dr. Jaya Arunachalam, WWF was developed with the objective of drawing out "the total human-resource potential" of India's poorest female workers. Initiated in 1978 during the aftermath of a devastating flood in Chennai in which slum dwellers lost all their belongings, WWF aimed to address economic and social problems—such as oppression, exploitation, and gender discrimination—that confront poor women by facilitating "participation, self-reliance, and sustainability."¹ Today, the organization's multi-fold initiatives have evolved into an alternate development model. By organizing women within their



households, markets, and communities and developing a strong field base, WWF has encouraged group structures, transcending barriers of caste and religion, and crystallizing the social integration process among the poorest of several divergent groups all towards a common cause of "improving living and working conditions and creating visibility to their various economic roles."² WWF's greatest success lies within (1) its innovative approach to integrate the poor at all levels in its institutional framework, (2) its improved delivery channels from combining micro-credit with social mobilization, and (3) its establishing the groundwork for its members' self-reliance by taking control of the decisions that affect their well-being.

This case discusses WWF's microfinance model in detail with a specific focus on the organization's urban operations in Chennai and South Indian cities. WWF's two main wings of operation, the Indian Cooperative Network for Women (ICNW) and the National Union of Working Women (NUWW) are also analyzed as they provide a unique perspective on the organization's comprehensive programs and services to poor urban women.

Introduction

MOTIVATIONS

Founded in Chennai, Tamil Nadu as a non-political, grass-roots organization, WWF was developed as a response to urban poverty and the acute malaise afflicting the poor. During the 1978 floods, it was increasingly apparent that charitable relief measures or conventional reconstruction approaches of delivering fragmented inputs were temporary fixes and were not enough to help the urban poor break out of the poverty cycle. WWF's approach was to organize and categorize poor women working in the urban sector under occupations such as hawkers/vendors, service providers, or home-

1 Arunachalam, 1991

2 Ibid.

based petty traders. As women came together, the similarity in their struggles, including high-cost debt, became apparent. WWF decided to take on the role of facilitating poor urban women's access to the nationalized banking system, which could provide credit to WWF members through its differential rate of interest scheme (4% per annum). The organization's goal was to help women organize into groups by their occupation to negotiate loans, which would be repaid by linking credit to cash sales and marketing arrangements for financed activities. However, not all institutions responded positively or effectively thus preventing poor women from getting loans. Hence, WWF established Working Women's Cooperative Society (WWCS) under the Tamil Nadu Cooperative Act, to serve as a bank that engages in both mobilizing savings by its members and providing credit to them. WWCS began in Chennai with a membership base of 2,500. Later, WWCS was re-registered as a multi-state cooperative society—Indian Cooperative Network of Women (ICNW)—with the option and capacity to work anywhere in India.

THE URBAN MARKET

While researching its target market in Chennai, WWF identified several major problems that plagued urban workers pursuing labor in the informal sector, including low wages, indebtedness, unproductive entrepreneurial efforts, and limitations to upward mobility. Additionally, the lack of access to basic services and productive inputs, such as credit, technology, trading space for vendors, and vocational training aggravated the situations of the working poor further pushing them into poverty, despite their status as a critical component of India's work force. Approximately 89% of workers in the informal economy are women whose contributions have been invisible to and neglected by state planners and policy makers. Without steady employment or a regular workplace, female workers are often excluded from mainstream trade unions as well. For these reasons, WWF initiated the grouping of women by occupations to come together under their own trade unions where they can overcome common issues such as oppression, gender bias, and powerlessness to improve their living and working conditions.



BUSINESS STRATEGY

At the outset, WWF took up the responsibility of social intermediation by identifying and forming groups in various urban slums and settlements with the goal of facilitating the economically active poor's access to credit from nationalized banks, which would strengthen their entrepreneurial efforts. Later on, however, Dr. Arunachalam realized that, to achieve this goal, the organization would need to promote its own credit banking system. ICNW, a centrally-registered multi-state cooperative society with a mandate to work country-wide, is focused on allowing poor urban women access to microfinance. This strategy employed by WWF as a credible banking option has not only helped free women from relying on moneylenders but enabled them to demonstrate their creditworthiness by using peer monitoring to achieve excellent repayment results, better enhancement of business opportunities, and pooling their scarce resources for the best possible utilization of financial services for themselves and families.

In terms of the organization's short, medium, and long term targets, WWF is not looking to focus on expansion efforts; rather, the organization's emphasis is on member retention and enhancing their clients' development further by identifying alternate skill training, for example. This strategy is based on WWF's desire to keep existing clients, particularly when clients face 'lean periods' or seasons in

which they earn less than Rs. 50 per week. By the end of 2006, WWF aims to complete its alternate skills training to all existing clients in both urban and rural communities.

Over the medium run, WWF plans to strengthen its research team to develop various practical micro insurance products and identifying organizations that will incorporate WWF's ideas to provide better products and services to clients. In addition, WWF hopes to achieve self-sufficiency and independence from donor funding by 2008. The organization is also encouraging researchers within and outside WWF, such as research students, scholars, academics, and individuals from the United Nations, to study its program in the long run. WWF also intends to collaborate with local NGOs and microfinance institutions (MFIs) to discuss, share its expertise, and benefit from others' knowledge in replicating its model throughout India and beyond. WWF researchers have begun developing a thorough training manual for the transfer of technology, and the organization is laying the groundwork for this initiative by working with NGOs seeking to get involved with microfinance activities in India and abroad.

ORGANIZATIONAL STRUCTURE

Legal Structure

Given its credit network, WWF has branched off into the ICNW to promote the financial and social independence of women through micro and small enterprise development and providing them with low interest loans. In 1981, ICNW became a legally registered and autonomous MFI and in 1983 evolved into a multi-state cooperative, registered under the Multi-State Cooperative Societies Act of 2002 that substitutes an earlier 1984 statute. The Act determines the formation of both primary (with individual and institutional members) and federal cooperatives (with only institutional members).

WWF's other main wing of operation, the NUWW, has been a registered trade union since 1982. The union's belief is that the poor themselves have a major role to play in their own development by taking up visible leadership roles within their local neighborhoods and communities. In India, modest protection has been provided to unions, which were formerly suppressed during earlier policies, under the Trade Union Act of 1926. Under the Act, a union refers to any combination, whether temporary or permanent, formed primarily for the purpose of regulating the relations between workers and employers, workers and workers, and/or employers and employers, or imposing restrictive conditions on the conduct of trade or any business.

Given these prominent programs, though WWF registered under the Societies Registration Act (1975), Dr. Jaya, Dr. Arunachalam prefers to refer to her organization as a "civil society initiative" instead of a NGO.

OPERATIONS

Areas covered

WWF works in a main administrative office in Chennai with an additional 15 branch offices located throughout Chennai,



Bangalore, Hyderabad, and in rural settings within the towns covered by villages. Given that the head office is located in central Chennai, which is rather distant from the organization's major operating areas, WWF has designated field officers to manage specific localities throughout the city, such as North and South Chennai. The organization's first branch, in Chennai, began with only 800 clients. To date, WWF is working with over 800,000 poor urban women in the slums and settlements of urban and semi-urban Chennai.

Customers

Most impact studies on microfinance around the world address issues that largely reflect the socio-economic objectives of various practitioners, such as alleviating poverty, improving the status of women, enhancing living standards, increasing the poor's income, and helping the poor access better education, health, and nutrition. Through these research efforts, it has been found that women are often better borrowers as they tend to invest any little extra money for the betterment of their family/household, especially the welfare of their children.³ For these reasons, WWF works with only female clients in both urban and rural settings.⁴

In the city of Chennai alone, with a population of 4.3 million individuals, there are over 1 million people living in slums of which nearly 65% are women and children. WWF's clients in Chennai work as hawkers, fruit and vegetable vendors, service specialists, such as dhobis (cleaners), and petty shop owners. In Bangalore slums, WWF members mainly work rolling incense sticks, and those in Hyderabad are often handicraft artisans, embroidery workers, and bangle makers.

Since WWF is headquartered in Chennai, the organization's outreach in the city extends to approximately 200,000 members in 1,669 slums. The average annual income for Chennai clients is Rs. 15,000, in which the woman is the sole income earning member of the family given that many are abandoned by their husbands or have alcoholic spouses incapable of holding steady employment. Before joining WWF, many women could not afford to send their children to school, and depended on them to go out and work in order to sustain the household, given high amounts of existing debt to local moneylenders that charged interest rates ranging from 24 to 50% per annum.⁵

Today, women that have joined WWF use reasonably-priced credit products to not only invest in their enterprises but also repay and close outstanding loans with moneylenders or pawn brokers. In addition to taking part in and/or expanding various economic activities, WWF members are able to use credit to pay for school fees and purchase textbooks, which has created a noticeable and positive difference in behavior and attitudes among children and their families about their ability to change their lives.

Products & Services

Women primarily join WWF to access financial services, such as credit, that were previously unavailable to them through the formal sector. The loan amounts available to WWF members are not only offered at an affordable interest rate, but are generally greater than those obtained from moneylenders. Most WWF clients have their own, independent sources of income, and take out loans on their own without the need for husbands or sons to cosign. The organization provides credit to those that run a micro enterprise in order to help the economically active poor enhance and expand their businesses. For women that are salaried workers and not necessarily involved in an income generating activity, after intense verification, exceptional cases that prove themselves to possess an entrepreneurial spirit and drive are also approved for loans.

3 Hulme & Mosely, 1996; Pitt & Kandakar, 1996.

4 The occupational characteristics of these members vary within different cultural contexts.

5 Based on the loan amount required.

CUSTOMER PROFILES



Member Name: Saraswathi
 Occupation: Silk weaving
 Age: 45
 Loan: 13th (Rs. 8,000)

I was 16 and my husband was 35 at the time of my marriage. Before marriage, I was involved in weaving sarees. I started weaving sarees again after my marriage since my husband was not interested in the welfare of the family and would come home drunk everyday. Since he was older than me by almost 20 years, he was also suspicious of me and would abuse me. During this time, the only source of income for our family was from my weaving. Given our extreme poverty, I had to pledge my daughter and received some money that I utilized for household expenses. When my husband fell sick, I desperately needed money for his treatment and was forced to pledge another daughter to buy the necessary medicines.

When I found out about WWF and its program to give loans to those wanting to start their own business, I approached the organization for help. I received a loan of

Rs. 1,000 that I invested in silk thread for weaving sarees. Today, I've taken out a larger loan for Rs. 8,000, which I'm using to expand the business and earn additional income. I've also redeemed my children from bondage, put them through school, and gotten them married. It was my hope that my son would take care of me during my old age, but he has settled with his wife separately and hardly visits me. Instead of being dejected or depressed by this action, I know that I have skills to earn a living myself and I'm no longer dependent on anyone for anything. WWF's empowerment training program has given me the courage to handle critical problems independently. I have the courage now to go out alone without the help of anyone. This has been made possible because of the Forum.

Member Name: Nayagam
 Occupation: Fishing
 Age: 60
 Loan: 15th

I've been a member of WWF for the past 15 years and have taken out loans for my fishing trade. Before getting a loan, I attended the orientation program where WWF staff went over various details on general awareness, health, occupational hazards, and micro insurance products. When I listened during these meetings, I realized the usefulness of the product offerings and enrolled myself in the accident, life, and natural disaster insurance schemes. The disaster insurance scheme, in particular, for Rs. 34 has been very useful since I was able to receive Rs. 1,500 from the Royal Sundaram company in 2004 when the tsunami hit and all my belongings were washed away in the flood. The funds I received were very useful since I was able to restart my trading business to buy small quantities of fish and sell them at the market. The insurance scheme of WWF has been helpful to poor women like me since we are now able to get immediate help, even if only a small amount, to help in our hour of need.

It is important to note that WWF disburses financial services through a peer-based lending model using joint liability groups (JLG); a loan to one group member must be guaranteed by her peers that trust her ability to effectively use credit for income generating purposes and repay the organization in a timely manner. A group comprises essentially of 8 to 10 members with one of them being the group leader who is chosen unanimously by the members.

In a group's first loan cycle, WWF typically approves loans of Rs. 1,600 to individual group members and Rs. 1,800 to the group leader. Given the additional responsibilities taken on by the group's leader, such as regularly taking time away from her business to regularly visit the branch office, WWF considers it appropriate to facilitate the group leader's travels by approving an additional loan amount. Once a client closes a loan after timely repayments, she becomes eligible to take out larger loans

during subsequent loan cycles. The maximum loan amount sanctioned, however, is Rs. 50,000, and many WWF members have yet to graduate to this highest level.

For loan amounts up to Rs. 5,000, WWF has established a fixed repayment schedule of 10 months. For those having taken out loans between Rs. 5,000 and Rs. 10,000, clients can repay the organization over 15 months. Lastly, for women who have been approved for loans up to Rs. 25,000, the repayment schedule is 30 months in order to increase the manageability of monthly payments. Credit provided to all group members and leaders alike carries a diminishing interest rate of 18%.

It is important to note that in addition providing clients with credit, WWF encourages its members to save regularly as well. WWF's ICNW has developed a fixed deposit scheme, in which members are expected to save Rs. 300 by the end of their first year with the organization. The interest rate offered on deposits with a timeframe of one year is 5%; within two years is 5.5%; and within three years is 6%. The interest rate is 4.5% on savings accounts.

As a cooperative, ICNW not only provides poor women access to credit but also prepares them to understand and take part in various aspects of household and community decision-making, such as healthcare, child care, nutrition, family planning, gender issues, domestic violence, and anti-dowry policies, thereby raising their social awareness.

The programs initiated in various branches of WWF/ICNW, both urban and rural, are need-based, and each branch tailors products with features that will best meet the needs of local clients. The branch offices regularly conduct needs assessments to understand their clients' requirements in terms of service and product offerings. During this process, some branches have been permitted certain flexibilities by the WWF head office in repayment schedules as well as creating additional training programs. For example, fisherwomen in Adiramapattinam, a fishing community in Tamil Nadu, face lean periods during seasonal climactic changes. During this time, they find themselves struggling without incomes for two to three months. In order to address this difficulty, WWF has provided these fisherwomen with training in alternate skills, such as pickling and marinating fish, that they can use to generate income in the lean periods.

Along with credit and savings, WWF offers a specific product for its members known as "micro insurance on social security," which is a comprehensive social safety net program. With an increasing membership base, WWF is striving to cover as many women as possible under its life, disability, accident, and disaster insurance offerings. Insurance is particularly important as an occupationally protective measure for clients who work in hazardous occupations, such as workers in match factories with hazardous chemicals. As a result, the organization is collaborating with state and private insurance companies, such as Life Insurance Corporation of India (LIC) and Royal Sundaram Alliance (RSA) to offer other comprehensive insurance products. To date, 747,046 women have been covered by the state-sponsored LIC that offers competitive market rates to WWF members. A unique feature of WWF's insurance coverage is that there is an added incentive built-in in terms of providing educational scholarships for up to two of a member's children for the amount of Rs. 1,200 to cover annual school fees. The organization is also working with RSA to offer disaster insurance for its members, particularly since the 2004 Indian Ocean tsunami severely affected fisherwomen throughout coastal areas of Chennai and rural Tamil Nadu. Going forward, WWF would like to develop additional insurance product offerings and subsidies to stabilize its members, particularly vendors and petty traders in the urban sector and farming and handicraft communities in rural areas.

Distribution Channels

The operational process at WWF begins with staff that is often a member of a given local community promoting the organization's activities while identifying potential clients. The effectiveness of "word

of mouth” marketing is a key ingredient in increasing the awareness of WWF and ICNW throughout target areas, and conveying to women the reliability, affordability, and sustainability of the organization's services. Once sufficient interest is garnered, WWF organizes an interactive, public meeting at the grounds of a neighborhood temple, church, or mosque to describe in detail WWF's methodology, products, and services. At the conclusion of this meeting, WWF staff makes clear to potential clients how they must organize themselves into groups in order to access microfinance. A “solidarity” group is then comprised of five to ten members that are known to each other and members come together to elect a group leader.

In terms of loan disbursement, WWF facilitates the creation of a mutual agreement between group leaders and members to serve as guarantors for each other, to encourage prompt repayments by themselves and peers to ICNW, and to provide financial support for one another in the event that a member requires assistance during financial hardships; this agreement helps ensure that a credible peer pressure and enforcement mechanism is in place. Throughout this process, WWF staff also closely monitor the groups primarily to resolve repayment difficulties before they arise.

In the event that such a situation occurs, however, in which either a group member or leader fails to repay and her peers are unable to cover the loan amount, the following steps are taken:

- » When a payment is delayed by 15 days, the ICNW staff alerts field organizers to take action during weekly meeting by immediately following up with the group leader and members. These effective communication measures contribute to a resolving issues as quickly as possible;
- » If the group leader fails to repay a loan for the second month, she is automatically dismissed from the group, and a new leader based on their performance and leadership qualities is selected by an ICNW representative who visits the group. During this visit, the group is also encouraged to apply greater pressure on their defaulting leader to pay back what she owes to WWF;
- » In the third month, a repayment record card is sent to each member, providing a status of her account, which means that her fellow group members will be unable to obtain any new loans until the defaulter's previous loan is fully repaid.

According to WWF, the number of defaulters is minimal, and the organization's systematic approach and procedures in place further reduce these cases. One the most important aspects of WWF's recourse in a situation where one participant in a group is in arrears is the fact that remaining group members do not qualify for subsequent loans until a potentially defaulting client's financial difficulties are resolved. This ensures that there is sufficient peer pressure to ensure compliance with the organization's loan terms and conditions. Such procedures have helped ICNW to maintain a cumulative repay-

ORGANIZATIONAL STRUCTURE

WWF's general members, either full or associate, constitute the General Council of the Forum. These women meet regularly, at least once a month, in their neighborhoods as individual groups, periodically in their localities with members of other groups, and annually in large public meetings. At local and individual meetings, group leaders and area organizers teach financial discipline to members, discuss WWF's ideology, and provide a forum for general members to voice the problems and issues they face and would like to resolve.

WWF's group leaders comprise the Governing Board of the Forum. These women must attend monthly coordination meetings at the organization's head office to discuss the progress and challenges faced by individual groups. After these meetings, it is the responsibility of each group leader to convey the key ideas and relevant discussions of the meetings to her fellow group members. The Board also performs several key functions within WWF, including reviewing loan applications of individual members, monthly collections, and delegating the responsibility of depositing individual repayments to members (each member must take a turn in order to gain exposure to the formal banking system).

ment rate of 98.66% throughout its branch offices.⁶ Under extreme conditions of illness or death, a client's loans are covered by interest earned from the organization's well-invested bad debt reserve fund as fixed deposits which the members are encouraged to do at the time of loan distribution to the members.

ICNW's resourceful information systems include the organization's grassroots credit organizers who not only work to ensure prompt loan recovery but effective utilization of credit by women. In-depth book-keeping procedures help ensure high-quality management of the cooperative banking network. Each WWF branch office is computerized with customized software, contributing to the efficiency of product delivery while also reducing the amount of time spent by clients in banking transactions.

As described, NUWW, the trade union promoted by WWF, is designed to help members take responsibility for their own self-development. To achieve this aim and meet the demands of a growing membership base, the union offers training to an increasing number of internal cadres to further the much-needed process of social action in which women fight for their rights. The consciously developed leadership roles for poor urban women at the grassroots level are the basis for WWF's model for a decentralized action-oriented process. Women taking part in NUWW's training then go on to educate their peers on their rights in the workplace. They also share proactive measures that can be employed to fight unfair trading practices, establish occupational safety measures, ensure fair and equal wages, enforce compliance with laws and regulations, and report child labor/bondage and exploitative working conditions. In general, NUWW strives to help women help themselves by uniting them in solidarity on a common platform to fight larger issues of a common interest. This itself is a noteworthy service to poor urban women who often find themselves disenfranchised due to a lack of organization.

Training, in particular, is an important component of the micro credit process. WWF views offering a simplified financial education program as critical to helping all clients understand basic banking concepts, such as interest rates, savings, repayments, and account-keeping. All WWF clients must go through leadership training, general member education programs, and training to understand savings, social security, and insurance. Skill training is also occasionally provided to help members learn new income generating activities and/or look for alternate/additional employment opportunities. Vocational training is often organized in collaboration with specialized institutions, such as the Small Indus-

**DETAILS OF WORKING WOMEN'S FORUM & THE
INDIAN COOPERATIVE NETWORK FOR WOMEN LTD.,
PORTFOLIO REPORT AS ON 31ST MARCH 2006**

Areas Covered Under the Working Women's Forum	
No. of members (Cumulative)	8,57,259
No. of Branches	15
No. Villages	3340
No. of Slums	2152
Social Security Coverage of Women (Cumulative)	7,47,046
Reproductive health Coverage	16,18,842
As a legally registered Micro finance Inst. ICNW has	
Out reach in Credit	4,27,925
Loan Portfolio (In INR)	1366 million
No. of Loans	13,50,379
Share capital (In INR)	54.66 Million
Savings (In INR)	128.58 Million
Member's Savings	96 Million
Fixed Deposit of members	33.16 Million
Working capital	68.43 Million
Outstanding Portfolio	105.52 Million
Financial Self Sufficiency	194.6%
Per cent of Women Clients	100%
Percent of Rural clients	66.79%
Per cent of Urban Clients	33.21%
Interest rate on lending	18% declining balance
Average repayment period	12 months (was 10 months until May 2006)
Cumulative repayment rate	98.54%

⁶ 30 percent of arrears are recovered within a period of three months, 50 percent within three to six months, and only 17 percent beyond six months.

tries Services Institute.

Overall, WWF stands apart from many other microfinance organizations given its broader focus on providing comprehensive services for women, including reproductive healthcare. In partnership with the United Nations Population Fund (UNFPA), WWF has developed a healthcare project that trains female cadres (members of WWF) from poor communities with marketable skills in the field of healthcare and encourages them to serve as advocates for appropriate measures for women. Trained clients then go out in their communities to educate and discuss with neighbors and friends various health topics, including nutrition, unsafe health practices such as taking medicines without first consulting a doctor, the lack of control in marital relations and choices that have led to gynecological complaints, as well as uterine problems that women often hesitate to talk about openly. WWF's health program illustrates the effectiveness of a human-centered approach that covers a wide spectrum of women and children, from the stages of a child's birth to adolescence, reproductive age groups, and those women beyond a reproductive state as well. To date, the organization's healthcare system has reached over 1,600,000 families in 720 slums and 340 villages through 960 health cadres at the grassroots level.

SCALABILITY

Over the past two decades, WWF has scaled up its operations by replicating its model across 14 branches of cooperatives run across three states in Southern India: Tamil Nadu, Karnataka, and Andhra Pradesh. Though the organization's head office remains in Chennai, it has established several extension counters in other districts across Tamil Nadu. Today, Dr. Arunachalam is proud that her institution has not only completed 25 years of operation but has been managed as an efficient, uncorrupt, and honest cooperative that raises reasonable profits. The ICNW's low default and delinquency rate of approximately 1.34% is another noteworthy feature.

According to Dr. Arunachalam, WWF "works for the poor and doesn't earn much of a profit. [Its] clients have indeed proved themselves in their efforts that they are viable human resources, bankable, creditworthy, and can save and manage their own finances." Thus, despite a lack of significant profitability, the organization has grown from having 800 members in 1978 into a social movement with over 857,259 members today across three Southern states, 2,152 slums, and 3,340 villages.

WWF has evolved into a venture for women beginning as a grassroots development initiative, which is apolitical, anti-caste, and non-religious in character. It is important to note that, while WWF was never intended by Dr. Arunachalam to transform into a political party, the organization's members and activities have gradually created several strong political solutions for problems like child labor, dowry, and unfair labor practices that have empowered poor women within a permanent struggle process. By enacting a series of reformist measures, WWF has utilized its members' unionization efforts as a process of social integration to bring together divergent groups on a single platform to fight their feelings of powerlessness/poverty and transcend barriers of caste, religion, class and gender. The programs initiated by various branches of WWF/ICNW are need-based programs, with each having specific features to meet the needs of target communities. ICNW, in particular, as a cooperative, not only provided its members with greater bargaining power to gain access to resources but also a share in the decision-making process that affects members' lives.

FUNDING FOR THE INITIATIVE

Through its earnings on interest charges, membership fees, and interest received on permanent endowments, WWF is able to independently cover over half of its expenses-56% to be exact. The remaining 44% is met by donor funding through various models, including partnerships with founda-

tions banks, such as the Small Industries Development Bank of India (SIDBI) and Citibank.

» ***Small Industries Development Bank of India (SIDBI)***

(SIDBI): First established as a subsidiary of the Industries Development Bank of India in 1990, SIDBI has become an apex financial institution for small scale sector industries. SIDBI's Foundation for Micro Credit was launched in November 1998 as a division aiming to achieve orderly growth and formalization of the microfinance sector. Its mission is to create a national network of strong, viable, and sustainable MFIs from the informal and formal financial sectors to provide financial services to the poor, particularly women. SIDBI provides loan support to relatively large-scale, focused microfinance programs, with a

minimum funding requirement of Rs. 1 million per year. Organizations must have sufficient experience and potential to expand, professional management, a willingness to transform into formal legal structures, and operational transparency. When WWF decided to open its own cooperative bank (ICNW), SIDBI was the first organization to fund the new microfinance program.

- » ***Citibank Foundation:*** Citibank India's Community Support program is based on a philosophy of self-reliance. Launched in June 1997, the Foundation focuses on extending support to organizations providing micro credit and working to empower underprivileged urban women in their income generation activities. With ICNW, Citibank volunteered to computerize the organization's credit network at the Chennai head office to both reduce paperwork for staff and enable them to devote more time to continue developing a strong field-oriented policy for WWF as a whole. Citibank volunteers also helped develop a software program for ICNW that would help meet specific needs of recording daily transactions and account-keeping.

Citibank has also helped WWF members market their products. For example, an exhibition of cotton and silk saris produced by WWF weavers and lace items produced by WWF artisans in Andhra Pradesh was held in Chennai; the result was a landmark event that benefited members greatly by cutting out middlemen. Since this exhibition, Citibank has continued to regularly work with WWF organizing additional 'buyer-seller meets' in major Indian cities.

**RABO, CITIBANK GRANT FOR WOMEN'S
TRAINING CENTRE - NEWS CLIPPING**

Our Bureau (Business Line) - CHENNAI, March 13

The Dutch Government and Rabo Bank have extended grants of Rs 40 lakh each to a project for creating a training centre for the Working Women's Forum (India).

Citibank has chipped in with a Rs 30-lakh grant. The centre, to be housed in a premises coming up in Chennai, would aim at "capacity building," the Forum President, Dr Jaya Arunachalam, told presspersons here on Wednesday.

The Forum is an initiative of poor, rural and urban working class women in the three southern States. It has promoted a credit network (Indian Co-operative Network for Women Ltd), which extends micro credit assistance to poor women. In delivering micro financial services, the Forum has covered nearly 1,003 shums and 2,768 villages, disbursing around Rs 64.31 crore of loans. The default rate: 1.25 per cent.

Critical Partnerships

As a unique experiment in the grassroots methodology of empowerment, WWF has inspired several institutions and organizations. Since 1990, WWF has expanded its action in global network, known as GROOTS, by developing a newsletter sponsored by a grant from the United Nations' Development Fund for Women (UNIFEM). Through this medium, the organization strives to share the knowledge and experiences it has gained while benefiting from others' expertise as well.

WWF's partner organizations across its areas of operations are in close contact with each other as well, and have used the Forum's methodology in their respective activities while facilitating greater outreach of products and services to the poor. In terms of fulfilling its long term objective of transferring its methodology to other institutions, WWF has actively promoted and received teams for training from Laos, Sri Lanka, Nepal, Maldives, Madagascar, the United States, universities in Germany, and groups of bankers from the India's premier financial institutions, etc. The training modules include analysis of WWF's microfinance model, accounting processes, management of information systems, financial analysis, credit operations, delinquency management and control, governance and leadership, and field visits. By developing a research/training center to create strong programs, WWF aims at promoting its model across various institutions that can each reach out to millions of poor people within the country and abroad effectively. In addition, WWF is working closely with U.N. agencies and healthcare providers to promote programs relating to reproductive and child health as well as AIDS awareness campaigns.

Overcoming Constraints and Expanding Opportunities

WWF has come a long way to achieve great progress for its members through both ICNW and NUWW. Still, many urban clients engaged in work in the informal sector, such as selling fruits and vegetables, rolling incense sticks, or running petty shops, remain engaged in individual production, distribution, and retailing processes separately, meaning the employment status of many poor urban women remains unstable. Thus, particularly considering the growth in NUWW's membership, the union must actively work to create alternative systems to resolve this socioeconomic and financial instability among its client base.

WWF itself is an organization that has experienced both ups and downs like many others. Nevertheless, it continues to stand apart with its systematic processes in place to overcome obstacles. For example, when asked if there was a difference in providing microfinance to the urban poor compared with the rural context, Dr. Arunachalam responded that rural individuals tend to be more socially conscious with women's rights at home as well as within society in addition to making more prompt repayments. With this view in mind, WWF developed a flexible repayment schedule for urban workers based on the nature of their work, since, for example, some are affected by lean periods and natural calamities, such as floods or droughts. In the urban space, one of the most important challenges WWF faces is increasing competition in the sector, with the implication that members tend to join microfinance programs while defaulting in loans taken out from other institutions. For example, state-sponsored and nationalized banking programs often include a built-in "subsidy," which further reduces costs to clients. However, new members are required to first save and wait for at least one year before becoming eligible for credit under these schemes. As a result, women may join ICNW since they can receive a loan relatively quickly, within 10 to 15 days of registering with the organization, while waiting to become eligible for credit from other programs that may be relatively more affordable, if not sustainable, due to subsidies. In some cases, members may be unable to make interest payments on loans to both organizations and face default more quickly, leaving them forced to rely on high-cost moneylenders to make repayments and further entrapping themselves in debt.

According to Dr. Arunachalam, WWF is focused on retaining existing clients and providing them with better products and services to meet their needs. The organization's research and training emphasizes regular evaluations of programs and conducts periodic assessments so that even minor

changes in the needs of its membership base are addressed as quickly as possible. This is simply one illustration of WWF's customer-driven approach to development.

Employee Training and Incentives

WWF's administrative and bank staff, researchers, and training leaders are 100% female. The organization has worked to offer its employees financially sound and rewarding careers with an annual bonus and an annual salary revision based on performance. Dr. Arunachalam is proud of the fact that over 25% of her staff has worked at the organization since its inception, which is a testament to employees' commitment and loyalty to WWF and its activities. In addition, WWF has an intense training program for its staff in which employees go through intense training in management, accountancy, communication skills, and finance. The ICNW staff receives their training certification at the Cooperative Management School in the field of credit management. Supervisors and field staff alike are also trained in monitoring and field control at the Gandhigram Rural Institute near Madurai in Tamil Nadu. The course component of field staff training focuses on communication, leadership, group management, group dynamics, and principles of delivery mechanisms. Each year, all WWF staff take part in a refresher training course in micro credit to keep up with emerging trends in the microfinance sector. WWF is eager to continue developing a strong research group and training program with the goal of establishing a new competent team by the end of the year.

Conclusion

Today, WWF is one of the most well-known and established NGOs working in microfinance with both significant outreach and a high repayment rate in its credit program. There is also a significant role to be played, however, in enabling women to struggle "class, caste inferiority, male dominance, physical weakness, and a closed world," as well as the "counter-culture" among poor women.⁷ In addressing this call for action, WWF is an organization that stands apart for several reasons, including:

- » ***Pro-women focus:*** The exclusive mobilization of women who act as the backbone of family's income and welfare. WWF clients are 100% female and the organization provides them with various ways to achieve comprehensive development through access to things like financial services, insurance, and healthcare.
- » ***Gender relations:*** The organization's activities not only focus on women, but also challenge the existing bias in gender relations in the household, workplace, and local communities.
- » ***Anti-caste and pro-secularism:*** WWF supports cross-caste and cross-religious groupings of women, inter-caste weddings, and religious tolerance.
- » ***Anti-politics:*** WWF strictly avoids involvement in party politics, yet mobilizes women around political issues affecting women and the poor.
- » ***Anti-dowry:*** WWF organizes mass demonstrations against dowry, rape and divorce.

Together, WWF and its entities, ICNW and NUWW, operate in unison to organize and mobilize poor urban women and provide them with training, credit, social security, and occupationally productive measures to support their livelihood stability and improve the quality for life for themselves

⁷ Chambers, 1985.

and their families. Overall, the strength of WWF as an organization lies in its holistic approach to development and its vision to serve the larger interests of women so that they can take part in the growing economy as a rich human resource utilizing their innate and learned skills. The methodology developed by Dr. Arunachalam is a unique one that her organization strives to see adopted by women across the country and passed on through generations. Throughout its years of operation, WWF has proved itself capable of bringing positive changes in the lives of urban women with a vision of demonstrating the capacity of this previously underutilized human resource.



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INDIAN BANK'S MICROSATE BRANCH

Microfinance for Urbanites



By Abhishek Gupta

Overview

In India today, there are over 150,000 retail outlets offering banking services to the country's vast citizenry of over 1 billion. In spite of the presence of a large branch network, however, approximately 38% of the population continues to depend on informal sources, such as moneylenders and pawn brokers, to meet their financial needs. In 1992, in order to reduce the number of households turning to these often exorbitantly priced sources, the National Bank for Agriculture and Rural Development (NABARD) developed the self-help group (SHG)-Bank linkage model by utilizing and building upon the work of several prominent NGOs, such as MYRADA and PRADAN.¹

Initially, the SHG movement began with a pilot testing phase in which 500 groups were linked with rural branches of six major financial institutions across India. Local NGOs assisted in the formation of groups and provided training to poor women in areas such as record-keeping and arithmetic. Today, this homegrown model of microfinance has exploded with over 440 banks, with a combined SHG portfolio of over Rs. 1,200 crores², lending to over 500,000 groups that have been formed and trained by 2,000 NGOs and development organizations.³ The result is that financial services have been made available, in effect, at the doorsteps of over 8 million Indians who previously lacked access to products that could help smoothen consumption or increase income generating capacities. Indian Bank is a financial institution that has taken part in this movement by not only lending to SHGs but pioneering the public sector's involvement in the microfinance sector as a whole.

Established in 1907 as part of the Swadeshi movement⁴, Indian Bank has evolved into a well-established financial institution with its overall business totaling Rs. 63,290 crores as of the end of the financial year 2006. Beginning in 1989, in association with the International Fund for Agriculture Development and the Tamil Nadu Corporation for Development of Women (TNCDW), Indian Bank commenced its microfinance operations. To capitalize on its first-mover advantage, the Bank opened a special branch in 2005, Microsate, which was intended to run with the sole intention of managing the microfinance business, particularly through SHGs. In the Indian context, this decision was particularly noteworthy since establishing a separate branch was something that was previously unheard, unseen, and unpracticed, given that many financial institutions were working on microfinance through distinct divisions. The following study provides an in-depth look at Indian Bank's operations and strategic approach to maximizing its share of this flourishing sector.

Introduction

THE URBAN MARKET

The Chennai district, with a resident population of 4,343,645 as of 2001, is a district of Tamil Nadu,

1 NABARD is India's apex development bank that promotes agriculture and rural development through refinancing support to all banks for investment credit and cooperatives and RRBs for production credit. The objective of providing refinance to eligible institutions is to supplement their resources for delivering credit for agriculture, cottage & village industries, SSIs, rural artisans, etc., thus influencing the quantum of lending in consonance with the policy of Govt. of India. It directs the policy, planning and operational aspects in the field of credit for agriculture and integrated rural development.

2 A crore is an Indian unit of measure where 1 crore equals 10 million rupees.

3 Kropp, E. W. and Suran, B. S. "Linking Banks and (Financial) Self Help Groups in India-An Assessment."

4 The Swadeshi movement refers to an economic strategy used during the Indian independence movement to force the British out of India by implementing the idea of swadeshi, which means self-sufficiency, through boycotting British goods and encouraging the development of domestic industries.

and accounts for approximately 7% of the state's total population. Though it is listed as the most advanced district in the state and is 100% urbanized, there remain 1,230 slums with a population of 1.803 million across 296,012 households. In Chennai city, the slum population is 27.3% of the population, of which only 0.01% have banking relationships. The majority of the poor are often forced to rely on informal sources, such as moneylenders and chit funds, for reasons due to a lack of documentation, regular incomes, and a degree of comfort in visiting bank branches for transactions. This lack of suitable alternatives often leaves the poor with no choice but to agree to informal credit supplied by local moneylenders at annualized interest rates as high as 120%.

Microsate Branch

OPERATIONS

Areas Covered

Headquartered in Chennai city, the capital of Tamil Nadu, Indian Bank is the biggest banking brand in South India, and has leveraged this reputation to begin its operations in one of the top four states in India where microfinance is a well-developed sector. Currently, the Bank has 36 branches in the city in addition to Microsate that are working to fulfill the credit needs of local SHGs. Indian Bank plans to open several Microsate branches in cities such as Coimbatore, Madurai, Erode, and Trichy, all of which will be considered as major expansions in the sector since urban microfinance is still developing. The Bank's growth and success in Chennai will help boost its future plans by further enhancing the institution's reputation since Indian Bank, through Microsate, aims at raising the socio-economic status of India's urban poor through its microfinance activities.

Customers

Microsate's Chennai clients have an array of diverse incomes, occupations, and education levels. Yet the overwhelming commonality of the groups with which Microsate works is that they are all low-income women, some of whom are currently living below the poverty line. Group members range from self-employed vegetable vendors to salaried housemaids. Some groups have come together based on certain criteria, such as being slum-dwellers, rag-pickers, or even parents of child laborers. SHGs can include both literate and illiterate women; in the case of an illiterate women's group, the animator and representative who are members of the group must have some knowledge of maintaining record books and bank accounts. Clients also vary in age, illustrating the fact that financial services are needed by a variety of individuals.

While many low-income women in Chennai are economically active micro entrepreneurs that seek credit for starting or expanding small business, salaried workers, such as maids and factory workers, also require credit for household expenses, from home repairs to servicing existing debt to moneylenders, which their salaries do not cover. Within a SHG, the use of loans can vary between groups as a whole and individuals.

1. **Group activities:** Examples of businesses owned and operated by SHGs include running canteens, leather shops, or departmental/general stores as well as supplying various goods, such as fish, to hotels and other large buyers.
2. **Individual activities:** Examples of income generating activities run by individual SHG members are tailoring, fishing, grinding, making handicrafts and toys, and running petty shops.

In general, entrepreneurial and employed women alike are taking part in the SHG approach to development and benefiting from the emphasis placed on financial discipline through credit and savings activities that further increase capacity building of group members.

Products and Services

In addition to providing SHG members with credit in the short term, Indian Bank has developed a variety of products to its poor clients:

- » **Grihalakshmi:** In 2005, Indian Bank launched a housing loan scheme for SHG members with maximum loan limit of Rs. 100,000 per member. As of March 2006, the Bank had disbursed 6,015 loans totaling Rs. 10.55 crores.
- » **Insurance:** In collaboration with the Life Insurance Corporation of India, Indian Bank has recently launched a life insurance product offering to all SHG members. In the Janashree Bima Yojana scheme, in the event of natural death of the members sum insured of Rs. 20,000 will become payable. In the event of death by accident or partial/total disability due to accident the amount ranging from Rs. 25,000 to Rs. 50,000 will become payable. Individuals covered by LIC pay only Rs. 100 of the annual premium of Rs. 200, of which the remaining is subsidized by Central Government borne out of the Social Security Fund established with LIC of India. Another noteworthy feature of the scheme is that the children of the members covered under JBY scheme will be given scholarships on selective basis under Shiksha Sahaya Yojna scheme.
- » **Vidhya Shobha:** This is an educational loan product especially for the wards of SHG members. The loan is an individual loan but only members from those SHGs that have established a strong track record of repayments and have been a group for a minimum of two years are eligible for this product. The loan amount is typically six times the amount of a group's

THE SHG APPROACH TO MICROFINANCE

The SHG approach remains a well-established one in India, with 15 to 20 poor individuals—usually women—coming together to provide financial support by saving small amounts regularly, establishing a common fund, and meeting emergency needs on the basis of mutually helping each other. SHGs are encouraged set up a small business or conduct an economic activity of some kind together as a group. Activities can vary from creating a micro enterprise for basket making to operating a milk dairy. The SHG, which is often formed and trained by a NGO, is also increasingly used by the organization as a channel to deliver various services, such as vocational training, or transmit information on subjects ranging from HIV/AIDS awareness to alcoholism.

In the SHG-Bank linkage model, a NGO or government agency that does group formation is typically referred to as a self-help group promoting institution (SHPI). This organization assists the group in opening a bank account with a formal financial institution in which the SHG can establish a common fund. Such an account must be in existence for a minimum of six months before a SHG can become eligible for credit provided directly by a lending institution. A bank will issue a loan to the SHG after the group as a whole is rated based on its savings and internal credit behavior. Using funds in the group's common bank account, members may individually borrow from the group before and after bank linkage takes place, with interest rates and loan terms decided on within the group itself. Once a lending institution disburses credit funds to the group, the SHG will use the funds to supplement its own on-lending to members. It is important to point out that though banks and microfinance institutions (MFIs) may lend to SHGs at reasonable rates, the group itself may lend to its members at fixed rates as high as 2-3% per month.

Overall, the duties required of SHG members can be very time-consuming, given that a typical group saves money, rotates the funds among themselves by prioritizing, keeps their own books of accounts, and works within a decentralized decision-making process. In addition, monitoring and meetings can be inconvenient and costly, particularly in terms of time opportunity cost for urban clients, many of whom are salaried workers. Nevertheless, the inherent use in the model of peer monitoring and pressure to ensure timely repayment and that loans are utilized in a sound manner facilitates the poor's access to a safe place to save and affordable credit.

accumulated savings, but can vary on the educational requirements of members' children. It is important to note that the savings amount on which the educational loan amount is based is distinct from the SHGs common savings fund: groups interested in receiving an education loan must maintain a separate savings account, specifically for Vidhya Shobha.

Thus, while credit is the only financial product currently offered by Indian Bank's Microsate to SHGs, the Bank does recognize the poor's needs for more comprehensive services. As a result, the institution is working with both field staff and various partners to develop new products to meet clients' needs ranging from housing to education expenses.



Mrs. Devi Priya is a member of a SHG that received approval for a loan of Rs. 100,000 from Microsate. Prior to obtaining bank loan of Rs. 10,000 through the SHG, Devi was a housewife and her husband was the only working member in the

household. Since joining the SHG, however, she has gained access to sufficient funds to begin a business selling sarees. Currently, she earns a monthly income of Rs. 500 per month and contributes to her family's income. She is now able to send her only daughter to school with a great sense of pride and accomplishment. Devi has expressed great satisfaction with the services provided by Indian Bank, particularly since her group received a loan within four days of the request. In addition, Devi and her peers were not required to open a new group account with Microsate to become eligible for credit, and were able to maintain their funds at Chennai Cooperative Bank. The Mullai Mahalir group, as a whole, has been quite happy with Microsate and is looking forward to receiving a second, larger loan after closing the first loan long before the loan tenure.

Distribution Channels

Currently, Microsate is working to increase poor women's access to finance, particularly credit, via two delivery channels: the direct SHG-Bank linkage model and bulk lending to NGOs. By taking part in NABARD's SHG-Bank linkage approach, Microsate aims to provide thrift, credit, and other financial services to the poor in all areas enabling them to raise income levels and standards of living. A typical SHG linked to Microsate must consist of 10 to 20 members; have been in active existence for at least six months to ensure stability and affinity among members; have regular meetings with regular attendance of all members; require that all members contribute to the group's savings account; begin on-lending to members using the group's bank account as a source of funds for credit; adopt an economic activity either as a group or on an individual level; and create an atmosphere where all members feel comfortable to actively participate. In terms of the loan amount, a SHG can receive credit up to four times the amount of the group's savings, including interest. Microsate also provides an overdraft facility to long-established and well-run groups.

The loan term set by the Bank is typically 10 months; repayments are allowed up to 36 months under the short term loan facility and greater than 36 months under the long term loan facility. Since Microsate's operations began one year ago, some SHGs have already closed their first loan and have moved into the next loan cycle by receiving a loan that is typically three to four times greater than the amount of their first loan.

In addition to directly linking with SHGs, Microsate has also chosen to work with the poor through bulk lending. In this approach, Microsate lends to NGOs and NGOs in turn lend to the groups in their fold. The NGO is then responsible for recovery and repaying Microsate in a timely manner.

This model's loan amount depends on the number of SHGs that Microsate seeks to assist and on the creditworthiness of the NGO responsible for forming and training the groups.

Though Microsate's management has chosen to work through both lending approaches in achieving the Bank's objectives, the SHG-Bank linkage model is commonly viewed as a more favorable distribution channel better suited to meeting both the clients' and lending institutions' needs. Groups access their approved loans through cheques⁵ issued by Indian Bank that must be personally deposited in their accounts after which they can make withdrawals at anytime. Loan repayments are made in cash by group members during Microsate's working hours. With the SHG-Bank linkage model, bank staff can develop better relationships with clients; however, one potentially costly disadvantage of the SHG-Bank linkage model is that, to deposit any loan, members have to come to the branch.

Microsate is interesting because, unlike most banks lending to SHGs, it does not provide general public banking facilities. As the branch specifically works with SHGs, management at Indian Bank felt that offering products and services to others would detract from Microsate's objective of advancing the development of group-based lending to low-income individuals.



Renuka has used a loan of Rs. 10,000 to start a tiffin shop. Her SHG consists of 20 members and has cumulatively borrowed Rs. 150,000. Renuka, along with her group members, has taken out an insurance policy for which they regularly pay a premium. After starting and running her own business, Renuka happily mentions that she has gained a great deal of confidence and pride, with the feeling that anything is possible. Her next goal is to repay her current loan as soon as possible so that she can access a larger loan and expand her business. She is now saving Rs. 500 per month to achieve this goal. Renuka is very thankful to Microsate for providing her group with access to credit that has enabled her to benefit tremendously, both financially and personally.

Women have expressed a greater degree of comfort in visiting Microsate. Branch facilities include conference rooms for credit rating and meetings with the branch manager, a well-stocked library, and a dining hall.

India Bank's New Initiatives

In 2001, Indian Bank identified certain branches with a high potential of SHGs and converted them into micro credit kendras (MCKs), which could serve as a single delivery channel for providing credit services to SHGs. As of March 2006, Indian Bank has developed 41 MCKs and is planning to increase its operations to 50 kendras by the end of 2006 by expanding in semi-urban and rural areas as well. To date, the Bank has provided Rs. 75.81 crores in credit assistance to 9,078 SHGs through these kendras. MCK branches are involved in a variety of 'credit-plus' activities in order to more comprehensively improve the well-being of their poor clients:

1. Usilamapatti Branch in Madurai Circle organized two-wheeler training for over 40 female clients. After that 16 SHG members have been provided with credit assistance to purchase a moped. The branch also organized a yoga class, known as the "Art of Living" for the SHG members, in which over 150 members participated. Usilamapatti Branch has conducted sev-

⁵ Indian Bank currently uses cheques to disburse loans to SHG clients, but is planning to provide ATM cards in the medium run and 'smart cards' in the future so that clients can more quickly and easily access their funds throughout Chennai.

DETAILS ON THE PROCESS OF SHG FORMATION

Providing women access to financial services through SHGs has become an important, if not critical, poverty alleviation strategy in India by enabling millions of poor access to secure savings and credit to meet emergency and consumption needs as well as support income generating activities. The impact of this development approach is visible in the form of enhanced livelihood options, significantly decreased vulnerability, and overall improved levels of well-being in clients' households.

Identifying potential group members and forming SHGs according to specific criteria is a critical step before commencing microfinance operations, particularly given the inherent risks involved in entering a new relationship with clients. Currently, Microsate is working with several NGO partners who are involved in forming, training, and linking groups with the various financial institutions, including Indian Bank. It is important to note that these NGOs are not exclusively working with the Bank since the institution is one of many large players involved in the sector.¹

¹ Other domestic banks working with NGOs to develop their microfinance business include State Bank of India, Punjab National Bank, and Canara Bank.

- 1. First, the NGO promoter identifies potential clients and selects 15 to 20 women to form a SHG. The group members are generally residents of the same area and have an affinity of some kind, such as caste, occupation, or economic status.*
- 2. The NGO then explains the benefits of becoming part of a SHG, and stresses the importance of ideas like savings, effective utilization of credit, training, and entrepreneurship.*
- 3. Next, the SHG is recommended to a bank in which the group opens a joint account. In the case of Microsate, opening a bank account with Indian Bank is not compulsory. SHGs can open group accounts in any branch of any bank, as per the convenience of their members.*
- 4. Before becoming eligible for receiving a loan, a SHG must save for a period of three to six months.*
- 5. Loans are typically granted based on the rating of the SHG done by the bank manager, which is done on a 13-category 200-point scale. Groups become eligible for loan based on score achieved by the group on the said rating tool. (See Appendix for 'Details on SHG rating')*

eral training programs for SHG members with focus on SHG-Bank linkage concepts. Workshops on identifying agri-business opportunities, counseling on water conservation measures, developing vocational skills, and even business tie-ups with companies, such as Hindustan Lever Limited (HLL) have been organised by the Branch.

2. Kodaikanal Branch held an exhibition of various products (like handicrafts, candles, and leather products) produced and crafted by SHG members, in which 500 clients attended and benefited from the sale.
3. Midnapore Branch in Kolkata Circle, a semi urban MCK, arranged several skill development and gender sensitization programs for members and their families, in which proactive measures for the development of farmers through associations and SHGs were discussed.
4. Guwahati Branch identified over 100 groups in the Pandu, Maligon area and arranged for training in weaving, in association with Assam Apex Weavers & Artisan Cooperative Federation (ARTFED), and extended credit assistance to the SHGs.

Critical Partnerships

The role of NGOs in the SHG-Bank linkage model cannot be overemphasized as they are responsible for forming, training, capacity building, and recommending groups to lending institutions, such as Indian Bank's Microsate. After a group is introduced to the Bank, it is Microsate's decision to work with a given SHG. Once a linkage has been formed, the NGO continues to support the SHG. They

also provide training in subjects from managing books of accounts to marketing and entrepreneurship. The NGO monitors group's performance and ensure timely loan repayments to the lending institution. Overall, the role of NGOs in investing in the poor illustrates these organizations' commitment and core competencies in developing human capital. In addition to facilitating financial intermediation, NGOs place great emphasis on social intermediation, in which they teach the poor how to become good savers and borrowers, manage finances, and most effectively use social capital for productive purposes. Thus, given that social intermediation activities involve close interactions with individuals at the grassroots level, they are a good fit with the typical characteristics of NGOs.

Conclusion

In Chennai city alone, with approximately 2.2 million people living below the poverty line in urban slums, the opportunities for microfinance interventions are undoubtedly plentiful. Indian Bank's Microsate commenced operations with an initial target of 1,000 SHGs; within six months, the Bank reached this target and illustrated the great demand that exists among the poor for credit and other financial products. As of March 2006, Indian Bank has cumulatively linked with 149,836 SHGs and provided credit in the amount of Rs. 894.15 crores. In 2005-06 alone, the Bank distributed Rs. 392.75 crores to 53,285 SHGs across India. The result of this aggressive growth is that Indian Bank's Microsate has positioned itself as a major player in India's microfinance sector with great promise to make a continued impact on previously neglected poor urban women who are now able to access services that used to be available only to their middle class and wealthy counterparts.

To further tap into this market, practitioners will have to keep in mind the importance of a suitable lending methodology and sound practices, especially when working with the poor. Indian Bank, by opening a branch exclusively focused on microfinance operations, has already taken a giant leap in this direction to work with poor urban women in Chennai. Going forward, the Branch has been brought under core banking solutions (CBS) environment. Group members will be able to make remittances at any Indian Bank branch with CBS facility.

It is important to keep in mind, however, that wherever there are opportunities, there are also challenges. In the case of Microsate, there are several issues that Indian Bank's management will have to consider as the Bank continues growing and expanding its microfinance operations:

- » ***Need for individual services:*** In terms of lending, as more and more SHG members go through multiple loan cycles, it is likely that a need will arise among clients for larger loan sizes to meet various needs, from expanding a business to home repairs, which fellow group members may be unwilling to guarantee. In this case, as the limit of the group guarantee is reached, the need for Microsate to lend to individuals will arise based on client demand and the fact that women will have evolved into a better position, in terms of increased income levels and repayment capacities, to take out larger loans. In addition, some current borrowers have expressed interest in accessing a personal savings account with a bank, either in which the group as a whole maintains its common fund or Indian Bank, so that they may make withdrawals at their convenience in desired amounts. This would, effectively, serve as a substitute for the need of a member to borrow internally from her group for smaller purposes.
- » ***Rising competition:*** Indian Bank's Microsate Branch also needs to consider the increasingly competitive environment in which it operates, particularly as more and more banks seek to follow the Bank's lead in entering the microfinance sector. In Chennai alone, there are several MFIs; MFIs based in neighboring states also plan to expand operations into the

metropolis. The implications of this operating scenario are that practitioners from both the private and public sector will have to consider the steps necessary to avoid malpractice in terms of disturbing or 'poaching' clients or concentrating efforts in areas that interfere with competitors' operations.

- » **Holistic development:** Lastly, as the Bank continues to promote the development of poor urban women, Microsate's management is finding the provision of markets for products produced by SHGs. The main problem that SHG members generally face in marketing their goods and services is finding partners to engage in collaborative business efforts. As a response to this situation, the branch is organizing several exhibitions of SHG products on Indian Bank premises to increase exposure and marketing possibilities for its clients.

Overall, Indian Bank's decision to open a branch focused only on microfinance has provided Microsate with an edge in what is now an increasingly competitive sector given the huge potential of the SHG movement. It is estimated that the growth rate of SHGs could approximate 20% in coming years. Today, the growth Microsate is experiencing is not based solely on Indian Bank's early mover advantage. Instead, this success can be attributed to both the levels of service and commitment by the Bank to its clients and this sector as a whole. By developing a space that is well-equipped and comfortable for women, Indian Bank has helped thousands of women feel proud of themselves and what they have accomplished in terms of income generation and opportunities for their families. One of the most important lessons to take away from Indian Bank's experience with is Microsate branch is that group-based lending is not only a profitable opportunity but one that must be taken advantage of strategically in order to truly fulfill the needs of clients by providing groups with a positive environment and informative and friendly assistance in their income generating activities. Based on this principle, it is possible for any organization to replicate Microsate's success.

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Appendix A

DETAILS ON SHG RATING

Selection criteria of SHGS for bank linkage

SHGs scoring more than 150 marks out of the maximum of 200 marks using the following table could be chosen for credit linkage. SHGs scoring less than 100 marks will have to be further developed before linkage. Groups with ratings below 100 marks are not considered for linkage.

Category	Items	Marks
Sangha size	a. Less than 10 members b. Between 10 and 15 members c. Members more than 15 up to 20	5 8 10
Composition	a. Target group only b. Having 1 to 5 non target group c. Having more than 5 non target group d. Homogenous group e. Mixed group	10 5 0 10 8
Age of the group	a. One year and above b. Six months and above but less than one year c. Less than six months	10 8 2
Monthly meetings	a. Four meetings b. 2 to 3 meetings c. One meeting d. Regular e. Irregular	10 8 5 10 5
Attendance	a. More than 90% b. 70% to 90% c. Less than 70%	10 5 3
Participation	a. High b. Medium c. Low	10 8 3
Savings	a. Frequency (monthly) i. 4 times ii. 3 times iii. 2 times iv. 1 time b. Regularity i. Regular ii. Irregular c. Savings Rate i. Optional Rate ii. Fixed Rate c. Interest on Group Loans i. Depending on the purpose ii. 24% to 36% iii. More than 36% iv. Nil % c. Utilization of Savings by Grant of Loans i. Above 80% ii. Above 50% and up to 80% iii. Less than 50% iv. No sangha loan c. Savings Patterns i. Savings of more than Rs. 5,000 ii. Rs. 3,500 to Rs. 5,000 iii. Rs. 2,000 to Rs. 3,500 iv. Less than Rs. 2,000	10 8 5 3 10 8 10 5 10 8 5 0 10 5 3 0 10 8 5 3
Group Loan Recovery	a. Dues recovered 90% and above b. Above 70% up to 90% c. less than 70% d. No recovery due to not granting loans for more than six months	10 8 5 0

Category	Items	Marks
Documentation	(Maintenance, Up keep, Custody and general maintenance of accounts etc.) a. Good b. Satisfactory c. Poor	10 8 3
Sangha Rules	a. If known to all members b. If known to most of the members c. If not known to most of the members	10 5 0
Education Level	a. If 20% or more members having functional literacy b. If less than 20% c. All illiterates	10 3 0
Awareness about govt. programmes and banking procedures among the members	a. If all are aware b. If part of the group only is aware c. If none is aware	10 5 0
Maintenance of records and registers	a. Attendance register b. Minutes book c. Loan ledger d. Savings ledger e. Cash book f. General Ledger g. Bank pass book	1 1 2 2 1 2 1
	Total Maximum Marks	200

Appendix B

SHG PROFILES

The “Group 1” SHG



The Group 1⁶ is a group with a difference. It is started by a lady who worked for a shoe factory and mastered the art of hand-weaving shoes. She formed a group and trained all members in making shoes, leather belts, and purses. The group then approached a local company involved in exporting hand-woven leather items, which agreed to give the group orders to fill and provide designs and materials. As orders grew based on increasing demand for such products, the need for greater workspace and equipment increased and the group approached Indian Bank's Microsate to obtain credit. Microsate sanctioned a loan of Rs. 50,000 to

the group within four days of the request, and the group was able to use a portion of these funds for leasing factory space and procuring new equipment. The group has already closed its first loan and is in its second loan cycle with Microsate after having received Rs. 100,000.

One unique feature of the group is that there are no fixed timings for working at the factory. Hours are based on group members' convenience; whenever a member has some time, she goes to work at

⁶ Based on the request of the group and client privilege norms, the name of the group is not mentioned and instead stated as Group 1.

the factory. Each group member receives Rs. 50 for each pair of shoes she makes. Typically, a group member in this SHG earns Rs. 3,000-5,000 per month. The group as a whole is working at a faster pace to earn greater income, particularly as competition has developed with at least four similar kinds of groups weaving leather items as well.

The group is also actively involved in adopting new marketing techniques for its products. Members are exploring various options, such as directly selling their goods to customers by opening an independent shop. Group members regularly attend vocational training programs organized by NGOs like Asha Niwas.

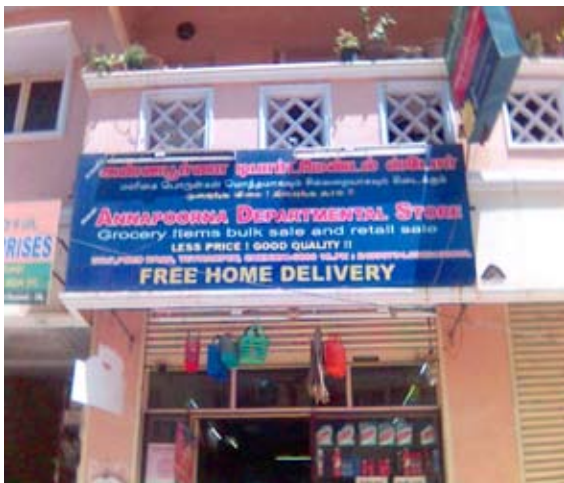


As a result of group's successful efforts the group has received a great deal of press, and was even featured in a leading Tamil magazine. According to the group's animator, each group member has steadily been improving her economic conditions. Each week, the group holds meetings to discuss problems or issues faced by members and invent solutions together. The goal of the group is to increase its earning capacity in order to allow each member to become financially independent.

The group has expressed great satisfaction with Microsate, particularly in terms of the assistance like suggestions and help provided by staff members. The group has also expressed its interest to the Bank in taking up insurance to cover all members.

The "Vaigarai" SHG

The Vaigarai SHG⁷ is unique group in terms of its members' commitment to self-employment. After coming together and discussing various ideas of micro enterprises, Vaigarai decided to open a departmental store in which grocery and retail items would be sold.



Given that most members were housewives, however, the group faced the challenge of obtaining funding. After approaching Nesakaram Seeds, a local NGO, about its options, the group was evaluated by the organization and then recommended to Microsate. Given the fact that the group was not only innovative but driven, Microsate was willing to sanction a loan to Vaigarai.

However, the amount of start-up funds required by the group was an extremely large sum, ranging from Rs. 900,000-1,000,000. Each of the 20 members of Vaigarai deposited Rs. 5,000 in a savings account, totaling Rs. 100,000. Nesakaram Seeds donated Rs. 50,000 to contribute to the group's account, raising Vaigarai's savings fund to Rs. 150,000. Then the group approached Microsate for receiving a loan, the branch sanctioned a loan of Rs. 986,000 in the form of Rs. 300,000 with a fixed tenure of 5 years and Rs. 686,000 as overdraft. Within one week, the group had access to the funds, and on October 21, 2005 Vaigarai opened the first departmental store in the state of Tamil Nadu owned and operated exclusively by women.

Given its location in a good residential area, the 'Annapoorna' departmental store caters to the daily

⁷ For more information about the Vaigarai SHG and the Annapoorna departmental store, refer to the December 2, 2005 issue of *Aval Vigaden*, a leading Tamil magazine.

needs of residents in the locality. In addition, the Annapoorna store has started accepting both retail orders and serving large companies, such as Taj hotels and Sigon. The group now stocks the store with various commercial products and even selling products produced by local SHGs, such as phenyl, jute bags, candles, and incense sticks.

According to Mrs. Kalpana Suresh, Vaigarai's animator, though Annapoorna has not yet made profits, the store is currently operating satisfactorily with daily sales up to Rs. 15,000. There is currently a staff of 7 members working at Annapoorna, receiving a monthly salary of Rs. 1,000. The remaining 13 group members are not directly involved in store's daily operations, but remain partners in the project and will receive a percentage of gross profits earned. It is also important to note that the group is quite knowledgeable about insurance and has obtained coverage for all members as well as for the Annapoorna store.

Given the limited availability of funds, the group carefully considers the use of its credit. As a result, Vaigarai does not invest a great deal in advertising and only distributes paper pamphlets in the store's locality and surrounding areas.

The Vaigarai SHG has been very happy with its experience working with Microsate, given that the branch made a huge exception to sanction a large loan amount. Each month, the group meets with the branch manager and representatives from Nesakaram Seeds to analyze the functioning of the group and departmental store. The group's next objective is to open branches of the Annapoorna store across localities in Chennai to achieve its members' goal of sustainability.

VILLAGE WELFARE SOCIETY

Visualizing Self-Reliance,
Creating Meaningful
Opportunities



By Sudhanshu Shekhar

Overview

The Village Welfare Society (VWS) has been operating as a microfinance institution (MFI) since 1995. Since then, the organization has not only established itself as one of India's leading MFIs with a sizeable customer base of about 60,000, but has made visible improvements in the lives of thousands in West Bengal. VWS has truly emerged as an organization completely dedicated to socio-economic development of the poor, particularly women in disadvantaged groups and the unorganized sector, by continuing to help individuals realize their dreams with financial assistance.

VWS has adopted a strategy of vertical expansion by penetrating deeper in existing areas of operation. However, their model has not been shielded from current sectoral issues, such as process intensiveness, gender perspectives, overemphasis on credit, slow growth in per capita credit, and the limited availability of holistic financial services. The microfinance movement has centered mainly on the provision of credit and VWS is no exception. It appears, therefore, that in the case of urban microfinance, if organizations are providing financial services to the poor to reduce their clients' financial vulnerability, the entire gamut of financial services, including savings, investments, remittances, credit, insurance, and derivatives, must be taken into account. Access to these products enables the poor to lift themselves out of poverty through income smoothing, asset-building, and greater risk-taking capacity, thereby facilitating their participation in the larger economy.

VWS' expansion strategy must also be assessed within the context of increasing competition in its existing areas of operation. For example, as VWS faces increased competition from credit-only MFIs, is the vertical expansion model conducive to VWS' intention to expand its customer base? Are VWS' strong client reputation and resource base¹ sufficient to drive this expansion amidst such competition? These concerns have to be addressed while considering current industry trends and benchmarks.

This case study was conducted between April and May 2006 and reflects VWS's business model at that time. Since then, VWS has undergone a major transition, part of which was a transformation of their business model from August 2006 onward.

Introduction

Initially started by a group of local men from the Pancharul village in the Udaynarayanpur block of Howrah district, the VWS' main objective was to provide relief to local families devastated by a major breach in a dam constructed on the Damodar River between Howrah and Hooghly districts. The organization's major concern was to help villagers by distributing grant money and by developing rehabilitation centres. In addition, VWS staff helped to establish clear channels of communication between village Panchayats and block level officers to facilitate relief efforts.

VWS now provides microfinance services to clients through 18 branch offices, with a combined gross outstanding portfolio of approximately 18.45 crores as of May 2006. VWS cannot be classified as a rapidly expanding organization since their objective is reaching out in a concentrated manner among existing areas of service rather than expanding geographically. Despite this vertical expansion strategy, VWS has experienced rapid growth in total loan disbursements in recent years.

¹ VWS has been working as a leading MFI in West Bengal for the last ten years. Hence, they now have an experienced pool of human resources and precious goodwill in the minds of customers, which need to be further leveraged.



BUSINESS STRATEGY

VWS' short term business plan is to focus on its existing area of operations rather than on further geographic expansion. Much of this vertical expansion will be done by VWS' loan officers, also called Community Volunteers (CV). VWS hopes to achieve its goal of loan portfolios amounting to Rs. 1 crore² per CV by 2009. This translates into a loan portfolio of 5 crore per branch and an overall target portfolio of Rs. 100 crore in VWS' 18 to 20 branch offices by the year 2009. Their medium term plan includes expanding horizontally on the outskirts of West Bengal, and eventually, expand and operate out of the state. VWS also hopes to be able to function as a microfinance research institution which will help identify proven models of microfinance interventions that can be implemented elsewhere.

VWS has been following a two-fold strategy in targeting their customers:

- » **Product diversification:** VWS has focused on bringing about product and operational improvements by consistently introducing and experimenting with new products and services such as education loans and credit card loans. The promoters have been keen to launch short-term loans on a quarterly or fortnightly basis in order to meet immediate family needs, while also reducing operational costs by offering shorter recovery periods. VWS also offers life- and health-insurance to their clients. VWS also operates a Micro Enterprise Group (MEG) which offers larger loans for small enterprise development.

Among the non-financial services offered are an old-age home, a women's help-line, elderly day-care, and awareness campaigns covering issues including dowry, health shocks, family planning, drug abuse, and AIDS awareness. VWS also runs a primary school for children.

- » **Customer centrality:** VWS is committed to developing relationships with its customers; they are consistently trying to maintain a healthy communication flow with their varied stakeholders. This has led to an environment of customer centrality in the organization and is the primary reason why VWS has now shifted their attention from creating new units to developing the existing unit base by offering them better services and products.

ORGANIZATIONAL STRUCTURE

VWS falls under the umbrella organization, Village Group. Along with VWS, Village Group includes Village Financial Services Pvt. Ltd., Village Parivar Suraksha Pvt. Ltd. (VPS), Village Micro Credit Services (VMCS) Pvt. Ltd., and Shiv Shakti Foundation.³ In 1982, VWS was registered as a Society under the West Bengal Societies Registration Act XXVI, 1961. VWS commenced micro finance activities in 1995. This is now its principal business comprising 81-90% of its operations.

² A crore is an Indian unit of measure, where one crore is equal to ten million rupees (roughly \$220,000).

³ The trainer in VWS' microfinance operations also works in the micro insurance division to educate customers and CVs on the organization's new health insurance product. This shows that there is no watertight compartment model among its different units (VMCS, VWS, VWS insurance), thus allowing resources to be utilized across departments when needed.

OPERATIONS

Customers

VWS aims to create meaningful opportunities for the distressed, marginalized, and deprived segments of society. Women constitute almost 98% of VWS' customer base, reflecting VWS' focus on the vulnerable section of the society. Generally, VWS' customers come from lower middle-class families in urban and semi-urban areas. The average VWS client is someone who can take advantage of credit for income generating activities such as expanding a business. For example, in areas such as Munsirhat in the Howrah district, many women use their borrowings to continue doing zari⁴ work, which has been a profitable small-scale cottage industry in this area. In Munsirhat, 80% of loans have been applied to the zari business, 10% to paddy husking, and 10% to furniture shops. Since over 90% of customers belong to traditional, conservative families, providing credit for women to work in home-based cottage industries is an ideal solution for VWS' clientele.

While VWS continues to manage its risks and maintain a high repayment rate, there are many potential clients who remain un-served including poor migrants from the neighboring states of Bihar, Orissa, and Assam.⁵ This marginalized population has great potential to use credit for starting small businesses, such as buying thela,⁶ renting auto-rickshaws, or running petty shops. Although VWS is committed to providing microfinance only to those native to West Bengal, it is often the case that branch managers will ask for authorization to sanction loans to individuals who do not meet the stated eligibility criteria, such as the aforementioned migrant population.

Products

VWS has identified the needs of semi-urban, lower-middle class, and functionally literate populations around the outskirts of West Bengal that have specific requirements which remain largely unserved by formal institutions. VWS' efforts have been focused on creating a sustainable business model with products specific to customer requirements in local areas. The organization has chosen the SHG lending model to limit the risks associated with lending to individuals who lack collateral. The formation of groups helps create a social obligation and facilitates the development of bonds among members to support one another during times of need.

One of VWS' most popular products is the Micro Enterprise Group (MEG) loan, which is given to small business like hotels and small grocery shops. Previously, loan repayments were made daily by cash collections; however, VWS has recently changed this policy and now repayments are made through post-dated cheques in monthly installments.

The MEG loan offered by VWS is unique in that VWS facilitates the formation of a group of five shop owners. This helps ensure full loan recovery from businesses. These shop owners are roadside vendors or small restaurant owners who use credit to expand their businesses. The MEG loan comes with a flat interest rate of 10% to be paid in weekly installments. VWS makes it clear to all clients that a late fee will be charged if payments are not made in a timely manner. The roll out of MEG loans by VWS has been problematic for the organization for a variety of reasons. Nonetheless, the organization's promoters are keen to continue financing micro entrepreneurs, and VWS re-launched the product in February 2006, with additional features, including repayments via post-dated cheques.

While the MEG loan is one of VWS' most interesting products, the organization's general loans, hous-

4 Zari work is a special type of embroidery work on silk and cotton materials.

5 One of the eligibility criteria for VWS membership is West Bengal domicile. The organization will not offer loans to those coming from outside the state.

6 Thela refers to a hand driven cart being used by street vendors for selling items like vegetables and general store goods.

ing loans, and consumer loans are most highly demanded. The interest rate on each loan amounts to 10% on the loan, but once additional charges,⁷ such as group training costs (GTC)⁸ and group nurturing costs (GNC) are considered, the clients pay a flat rate of 15%, equivalent to 27% declining. These costs are covered in the processing fee and are charged as a one-time cost to customer. VWS has also incorporated a lot of flexibility into its credit products. For example, the terms and conditions are subject to change based on customers' needs and the potential of their businesses.

VWS has also launched an education loan which is available to all VWS clients. The development and design of this product illustrates a strong commitment from VWS for the socio-economic development of clients in their areas of operation.

Distribution Channels

VWS has chosen to work through a peer-lending model using joint liability groups (JLGs). VWS refers to their groups as SHG, but in fact they are strictly following the JLG model. The distribution process starts with the CVs conducting 'eye' surveys of targeted areas. This strictly visual survey is conducted so that VWS can understand if the potential locality meets the organization's criteria in terms of the level of poverty, safety, and accessibility.

Next, the CVs invite women to a projection meeting where VWS staff explain the organization, its products, and lending methodology to potential clients. During this meeting, local women are encouraged to self-select into groups of five members each. Group members are often involved in similar business activities although this is not a requirement.

After a group is formed, members attend a compulsory group training (CGT) session. The CGT lasts for five days and consists of a 30-minute meeting every day during which financial discipline is emphasized. VWS staff teaches clients arithmetic, the importance of savings, and how the group guarantee mechanism will work.

On the sixth day, after the CGT is completed, the group must pass a group recognition test (GRT). This is an oral test administered by the branch manager to ensure that each group member understands things like the organization's rules and procedures, product offerings, and payment schedules. This test is required before actually inducting any of the candidates as a member. VWS benefits from this process in several ways:

- » The manager can evaluate the effectiveness of the CV in imparting knowledge at the CGT.
- » The manager can evaluate the level of commitment among the candidates for VWS' membership. If the group members answer the manager's questions properly, it will indicate a high level of interest and will consequently signal a high repayment rate in the future.
- » The whole process reiterates all the details and briefings associated with the business, again ensuring complete awareness of VWS' products and activities.

It is important to note that the sole purpose of a JLG is to receive a group loan from the MFI. This concept differs from India's domestically promoted self-help group (SHG) model, which is a group of up to 20 individuals—usually women—who provide financial support to one another in the form

7 Processing fee/security fee or any such fee:
 • Rs. 50 admission fee (both for SHG and MEG)
 • 1% Processing Fee (both for SHG and MEG)
 • 10% Security Fee (Refundable) (both for SHG and MEG)
 • 1.5% Insurance Amount
 Rs 5 is taken as contingency

8 Five days training program undertaken by the CVs before forming the SHG.

of pooled savings and internal loans. The SHG is often used by non-governmental organizations (NGOs) as a channel to deliver various non-financial services to a community. VWS has chosen to work through JLGs instead of SHGs because JLG model has been very successful in terms of repayment of loans with a low default rate of around 2%.

VWS has developed its own process of data collection that meets its needs of gathering, processing, and recording information on current clients:

1. **Community Volunteers:** In the first stage of data collection from the field, as the CVs make weekly collections, they check clients' passbooks,⁹ provide them with receipts, take carbon copies of the transactions, and submit these to the head office. The role of these agents is significant given the organization's dependence on the CVs to form customer groups (SHGs), do proper collections, and gather feedback from clients about VWS products and procedures.
2. **Branch Units:** Data collection done at VWS branches is collated by either the computer operator or the branch manager with the help of the CVs. The computer operator receives the demand and collection reports prepared by CVs, updates pre-existing data in the organization's management information system, and reduces the amount of each respective customer's loans outstanding. The branch staff also updates details on new members and the amount of loans disbursed daily. At the end of each day, the staff puts together a daily collection report (DCR), calls the head office to inform management of key information, such as the amount of collections, new disbursements, and administrative charges. They provide summarized details including total outstanding, current outstanding, total advance made, total collection made, final payment made, disbursement, group training fee (GT), group nurturing fee (GN), administration charges, deposits, and withdrawals. This is done each evening, usually by the computer operator or branch manager.
3. **Head Office:** Data analysis and management at the head office is a complex procedure since VWS has a total of 18 branch units, of which only 13 are computerized. The details of data gathered by non-computerized units are updated manually at the branch level, which are then updated at the head office. This data is updated weekly after collecting each branch's DCR.

Scalability

VWS has been in the business of microfinance for the over 10 years, though its growth has been especially significant in the last two and a half years. For VWS, the question is not how to grow, but how much to grow. There is a huge demand for soft and small credit from lower middle class families either for expanding businesses, opening small shops, or for personal purposes such as education and house repair. Because of the great demand, VWS' top management has instructed the units to restrict the addition of new members and to concentrate instead on servicing existing members only. VWS has advised its unit offices to consolidate the existing portfolio wherever the average number of clients handled by a field staff has exceeded average limits. This has been done so that there is less pressure on both clients and field staff regarding operational matters.

VWS' short term strategy of vertical growth provides them with a stronghold in the Howrah belt pre-empting any competition in that area by building a strong and healthy relationship with the customer.¹⁰ There is little competition in the Howrah belt region, but MFIs such as Bandhan, KDS (Ko-

9 A Passbook is a small, two page document given to the customer for updating the receipt of collection by the CVs. It also serves to inform clients and VWS staff about the total remaining balance on a particular customer's account.

10 While interacting with Mr. Santanu Sen (Public Relations Officer; VWS) on 26th June, 06

daliya Development Society) and Sahara have begun to aggressively market themselves in the area. VWS stands out since it has been in operation for the last 10 years, but the business potential is high enough to accommodate more than one player in the area. VWS also sets itself apart from competitors by undertaking several “credit plus” activities like offering health insurance products, providing affordable rural medical services, and offering scholarships to poor and meritorious students.

FUNDING FOR THE INITIATIVE

VWS works in collaboration with several agencies. Most funds are from the Small Industries Development Bank of India (SIDBI),¹¹ but VWS has on-lending arrangements with financiers such as Friends of Women’s World Banking, Rashtriya Mahila Kosh, HDFC Bank, and ICICI Bank. While VWS high debt to equity ratio indicates a degree of vulnerability, the organization benefits from diversified funding sources, consistent access to funds, and lower exposure to liquidity risk. VWS’ on-lending operations depend on both PAR and the portfolio ‘spread.’ Tying up loans with insurance, the default rate seems to have slowed and is expected to fall even further in the future. Nevertheless, management must keep in mind that capital budgeting must be streamlined given the organization’s high debt to equity ratio. An impressive timely repayment rate of 99.1% and reasonable portfolio at risk >30 days of 2.03% will play an important role in securing low cost capital.¹²

VWS has been working to reduce its exposure on both the individual and organizational levels. Group members maintain a security deposit of 10% on the total amount of credit disbursed in a separate account;¹³ this security is used throughout the year in VWS’ micro credit related business development planning. VWS has also become increasingly selective about lending to entrepreneurs and individuals by considering collateral, such as fixed assets, and by critically evaluating clients’ income streams before sanctioning loans. Senior management emphasizes the alignment of individual risk with the group guarantee mechanism characteristic of the JLG model, particularly if group members do not own homes. In addition, VWS’ two major credit products, SHG and MEG loans, include life insurance coverage provided by AVIVA & LIS of India. This innovation has drastically reduced risk inherent in the portfolio by significantly improving loan recovery. VWS has a solid diverse product portfolio including one for ‘star borrowers’.¹⁴ While VWS’ diversified funding sources reflect high portfolio leverage, VWS is less vulnerable to liquidity failures due to this diversified funding base.

Current Constraints

VWS is the culmination of over a decade of experience in making positive changes in the lives of poor urban women. As of September 2005, 180,734 loans have been disbursed since VWS began its microfinance operations, which cumulatively total Rs. 666.71 million. In addition, the number of active borrowers was 51,812, of which 49,740 were women who received an average loan size of Rs. 2,612. Nevertheless, there are significant challenges the organization must address not only to continue providing flexible and responsive financial services, but also to establish itself as an independent and self-sustainable MFI.

11 More than 50% of VWS funding is done by SIDBI

12 March 2006 MIS report; VWS

13 Previously, VWS required that customers keep a very high security deposit of 30% on the MEG loans to individuals. Based on customer feedback, the organization has reduced the deposit to 10%, resulting in approximately Rs. 30 lakhs in security deposits when loans outstanding total Rs. 50 lakhs. This policy has helped keep PAR (> 30 days) manageable.

14 Star product is VWS’ special loan product for those who have high repayment capacity. These are generally defined as those who have a good repayment trend through out their 1st and 2nd loan cycles. This loan also has a 10% flat interest rate but the loan amount can be as high as twenty thousand rupees.

- » **Sustaining vertical growth in the long run:** VWS has been expanding at an impressive rate over the past two years, with growth rates of 276.53% in 2004-05 and 67.89% as of November 2005. Yet it remains questionable if and how the organization's vertical growth strategy can be sustained. Though there is great potential for increasing the organization's customer base, given the huge number of unserved customers that still exist, VWS has not been aggressively pursuing increased membership. It is important to understand the management's intent of maintaining a high quality of service for existing customers before considering any more major growth in its membership base. At the same time, VWS will have to consider that the sector's increasing growth will bring new competitors. In addition to a restricted PAR and a healthy repayment rate of 99%, other critical factors to consider include service quality, interest rates, and the customer base. A solid customer base would, for example, help offset any volatility in the interest rate and reduce the threat of competition as well.
- » **Low level of motivation among CVs and branch staff:** In addition to the aforementioned effects of VWS' current expansion strategy, there is an increasing need to consolidate the organization's deeper penetration in existing areas with an accompanying increase in operational resources, such as logistical and human resource support. Currently, however, the alignment of VWS employees incentives and the organization's incentives is weak, leading to insufficient motivation at the staff level to boost performance.
- » **Work Pressure:** Senior management at VWS clearly communicates fixed duty hours for CVs at the branch level, which is a routine schedule operating from 7 a.m. to approximately 7 p.m. each day.¹⁵ However, it is often the case that CVs work until 8 p.m. or 9 p.m. Given that the branch offices are located in relatively remote areas, commuting not only becomes inconvenient when keeping late hours, but also poses a security concern for employees. In addition, each CV is responsible for an average of 1,000 customers every month. The commute involved in covering such a large range of geographically disbursed clients requires that the CV travels up to 10 to 12 kilometers from the branch office. Thus, weekly collections by CVs traveling large distances often leave them exhausted and compromise their attentiveness and ability to adequately perform the required functions at group meetings. The demanding and critical nature of the daily workload suggests that providing additional logistical support, in the form of scooters, for example, will both reduce time and the amount of pressure on CVs to cover large areas, reach a minimum number of customers, and complete a minimum level of transactions. In response, VWS has introduced an incentive system wherein two wheelers are provided to field staff who have achieved outstanding performance records.
- » **Staff Incentive Scheme:** For all of their aforementioned duties, a CV earns a monthly income of between Rs. 3,000 and Rs. 4,000. A salary incentive scheme (SIS) for employees who have completed more than one year with the organization gives credit officers cash incentives based on the size of the on-time portfolio. The purpose of this is to encourage field staff to monitor and screen more heavily and to boost employee morale in what can be a challenging work environment. Currently, however, there is a disincentive for CVs to improve their performance and increase efficiency, particularly given the common perception among employees that their work experience at VWS is not adding value to their careers and knowledge.

15 A typical day is as follows:

- | | |
|-----------------------|--|
| • 7 am to 1pm: | SHG meeting, collection and report back to UM |
| • 1 pm to 1.30 pm: | Hand over cash to UM, submit loan application |
| • 1.30 pm to 2.15 pm: | Lunch break |
| • 2.15 pm to 4 pm: | Disbursement of loan, completion of entries and preparation of Daily Collection Report |
| • 4 pm to 7 pm: | Formation of new groups and attending to other work if necessary |

Thus, in order to retain its employees, it is critical that VWS learn from the use of incentive schemes around the world. The use of ‘high-powered’ incentives that require field staff to focus on a certain aspect of the organization’s portfolio, such as the number of loans disbursed or amount of outstanding credit, can have disastrous consequences since attaining one goal may undermine another, such as distorting the portfolio or moving away from VWS’ goal of poverty-focused lending. At the same time, using short-term incentives that cause CVs to focus on immediate portfolio changes can also cause unintended actions that affect the organization’s medium and long term performance. If managers offered incentives to branch office staff as a whole, this strategy would encourage peer monitoring and enforcement among CVs but would also result in problems of free-riding. Thus, the most effective SIS helps an MFI achieve its vision by integrating long-term goals, such as extending measures of PAR and return on assets, instead of trying to accomplish short-term aims.

- » **Control issues:** There is little or no division of responsibilities among CVs at the branch level. This means that the same CV who conducts the eye survey conducts the projection meeting, facilitates group formation, and handles loan disbursements and collections. Given their close interactions and emotional investments in clients, CVs may even influence loan officers in their decisions to sanction loans to certain clients. Though this is not a frequently seen phenomena, the possibility of CV influence can be anticipated to be a concern for VWS in the future, unless they separate CV’s roles after the group meeting (GRT). VWS senior management must develop methods to segregate the roles and responsibilities of CVs at appropriate junctures.

Given increasing concern over these irregular and unsupervised practices, the head office now requires notification before each loan is disbursed. This lack of operational standardization is unnecessary and can result in many errors.¹⁶ Additionally, the organization’s promoters should be aware that these operational issues, if left unresolved, can affect perceptions among both clients and investors of the functioning of VWS.

- » **Professionalism:** A lack of professionalism within VWS’ work culture is reflected not only in the unclear division of responsibilities among field staff, but also in support functions like audit and accounts. Auditors and accountants often find themselves trying to measure branch units’ performance without data or metrics that can be used to compare various branches. There are no Critical to Quality listings (CTQs)¹⁷ that would provide common parameters to evaluate all 18 branches in a systematic manner. Given the organization’s aspirations to achieve self-sustainability, there is an increasing need to align staff responsibility with management’s authority if this goal is to be achieved.
- » **Management information system:** VWS’ current software, Matrix, has put them at a disadvantage. VWS lacked the initial blueprint for the software and the program was developed in an unsystematic manner. This resulted in insufficient features and the absence of networking and has created challenges for branch offices in uploading data and consolidating weekly reports. VWS is working with local companies to develop a new package with more advanced features that is better suited to the needs of the rapidly growing organization.

16 Requiring stamps and signatures for loans disbursed even below a Rs. 5000 loan is being practiced in some branch offices but not others. The manner in which paperwork is filled in and processed remains unsystematic. Individual branch units can devise their own policies—some branches disburse the next loan to clients after the completion of a 30-week installment period instead of the 40 week minimum required by the head office. Some branch offices maintain photocopies of necessary documents, while others keep attested copies and even the originals. Aside from ledger registers, no staff registers are regularly updated, if it all.

17 Basically derived from six sigma quality rigor, CTQ (Critical to Quality) are those factors which are critical to the output of an activity. Once quantified and analyzed, this could be used in standardization and quality improvement. This leads an organization towards more customer centricity in their business approach in an organization.

- » **Lack of networking:** Another concern is the lack of computerized networking among VWS branches. There are five branch offices that still manually update records. The discrepancies in the systems and the procedures for managing data among the computerized and non-computerized branches raise issues about accessibility and reliability of data. As mentioned, the local branch computer operator notifies the head office of details such as the total of loans outstanding and the number of disbursements at the end of each day. Even though the information is gathered daily, given the time to manually record and update data, management only obtains an accurate picture after a week has passed.

Conclusion

Over a decade after commencing microfinance operations, VWS' program has anecdotally demonstrated a significant impact on the lives of poor women in West Bengal. Countless stories abound of micro entrepreneurs who first approached VWS as a result of initial marketing efforts by CVs and are today availing larger loans, maintaining savings funds, expanding their business, employing more people, and sending their children to school and even university.

VWS has received recognition across India for its work in West Bengal, particularly its focus on the distressed, marginalized, and deprived segments of societies that lack access to financial products and services after having long been ignored by mainstream banks. The promoters recognized, however, that although it may require a large upfront investment to improve the poor's access to credit, the individuals in urban and semi-urban areas that have also been neglected by many rural-centered MFIs represent the future development and growth of the country.

Now that VWS has proven the success of its approach and impact, the organization's next challenge is improving long-term sustainability, which implies not only cost recovery but profitability. To enhance profitability, VWS must address the aforementioned hindrances to further growth.

The following are guidelines to assist senior management in this task:

- » **Controlling operational quality:** One of the most pressing issues to be addressed is the organization's operational quality. The identification of number of internal parameters (CTQs) is necessary for a comparative analysis across the branches and is critical to evaluating the degree of operational efficiency at each unit. With these CTQs quantified, VWS will be able to identify its level of operational efficiency. This rigor will also help in other ways:
 - ✿ **Standardization:** With all of VWS's operations standardized, a database of their activities at different levels (for example, at the field level, the unit level, and at the head office level) can be created to help identify glitches in the system. Non-standardized activity will be more easily eradicated and replaced by formal metrics.
 - ✿ **Comparative analysis and performance evaluation:** The quantification of CTQs will give VWS management a tool to compare different units at different operational aspects.
 - ✿ **Process improvement:** Process improvements will occur in the long run. Comparative analysis will lead to a competitive environment which will motivate VWS staff to undertake more substantial roles.
- » **Striking a balance:** Striking a balance between vertical and horizontal growth is fundamental to sustaining high growth. Additional branches may need to be established to relieve

some of the pressure on existing units. Branches such as Khordah and Munsirhat are facing logistical challenges: CVs in Khordah visit distant places like Sodpur; this area falls under the Nimta branch's domain as well, since surrounding areas have already been deeply penetrated. In situations like this one, VWS will have to consider opening new branches in the areas where Khordah is currently operating to manage client demand, particularly since greater infrastructure support is required to encourage the area's growth.

At Munsirhat, targeting clients has been temporarily put on hold due to the lack of new areas for expansion. Thus, while the nearby units of Penro and Bargachhiya have increased their businesses, the Munsirhat branch has seen a decline. Without a clear division of responsibilities and areas to be managed, such geographic overlapping has increased both actual and opportunity costs for VWS. The problems these units face could be attributed to the organization's aggressive vertical growth strategy. To help alleviate the pressure on some branches while ensuring others maintain strong operations, VWS can leverage its goodwill and positive standing in communities by making some bold decisions such as expanding horizontally, merging certain branches to avoid coinciding coverage, and redistributing resources to improve cost-effectiveness.

Senior management may also consider outsourcing some of VWS' processes, as seen with MFIs that work with self-help group promoting institutions (SHPIs). A notable example of this successful collaboration is the Sanghamithra Urban Program (SUP), based in Bangalore, which works with over 18 SHPIs to lend to over 33,000 poor urban women. SUP's model allows the organization to focus on business operations and expansion while the SHPIs manage targeting new clients and linking them with the MFI in return for a small fee. A similar partnership between VWS and local NGOs would help reduce costs and help the organization gain access to new customers.

- » **Governance and leadership:** The importance of strong governance and leadership cannot be overstated. Under the guidance of its Secretary, Mr. Ajit Kumar Maity, VWS has now developed a robust business model that caters to the diverse needs of the poor and lower middle class in West Bengal. Continuing to foster a progressive and professional environment at VWS requires tapping into emerging opportunities within the microfinance sector. When aligning VWS goals with industry benchmarks, the organization's leaders should utilize greater interactions with field staff to create a more people-centric and empowering MFI, further encouraging innovations and productivity.

Managers must create a working environment that can: (1) provide employees with insight into dysfunctional aspects of their actions in the field and branch office, and (2) offer a platform to develop a more effective organization by having a forum in which to share insights and feedback about products and processes.¹⁸ This openness and sharing of best practices can not only benefit the organization with a plethora of ideas but can also generate greater enthusiasm among both branch staff and head office employees.

- » **Control:** CVs are arguably the strongest force within the organization, taking on over 90% of the critical activity of group formation and management. Since this arrangement can lead to the possibility of control breakdown, employees' flexibility in terms of duties and behaviors should be contained to some extent. While various products have variable loan terms and tenures, the disbursement figures are subject to change, particularly in accordance with cus-

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Past challenges include the failure of short-term (six months) and MEG loans (six months). The decision flow must be a structured process within the organization, rather than the initiative of a single individual. Without addressing the causes for these organizational failures, it is likely that the corporate culture will continue to suffer from a lack of professionalism and employee motivation.

tomers' needs. This flexibility allows for a lower operational turnaround time; however, excessive freedom in operational procedures must be examined to ensure that proper control and monitoring mechanisms are in place. The operational manual provided to new and existing employees is to be updated more frequently to reflect standardized practices that allow little to no deviation in the fundamental rules and regulations of the organization.¹⁹

- » **Internet and Systems Integration:** The total annual cost comes down to Rs. 235,000, excluding the cost of the data collector's salary, the computer operator's salary and that of others involved in the collection and reporting. This unnecessary expense can be resolved with the following measures:

- ✿ **System Integration:** A system integration program needs to be implemented as soon as possible to resolve issues like the lack of current authentic statistics and several controllership issues. System integration will also promote future business growth. A rough estimate of the total cost of networking all the currently computerized branches is Rs. 2 to 3 lakhs. The current annual cost incurred exceeds even the one time cost of the networking.

- ✿ **Internet:** VWS can leverage its existing infrastructure to reduce its operation cost. Thirteen units have at least one computer and a landline telephone each. VWS can buy modems and provide internet connectivity to all 13 units. Computer operators can then prepare all the documents in a standardized spreadsheet format, connect to the Internet, and send them to the head office. The unit computer operator can also answer to different queries sent to the units from the head office and vice versa.

- ✿ **Cost Analysis:** The total annual cost for 13 computerized units for the first year is expected to be Rs. 55,900. From the second year onwards, the annual cost is expected to fall to Rs. 46,800 for all the units.

VWS can realize huge benefits out of this simple initiative.

- ✦ Drastically reduce high telephone costs (Rs. 235,000)
- ✦ Standardize the data entry activity by standardizing the DCR in spreadsheets that can be sent to the head office via the Internet
- ✦ Raise efficiency level by saving working hours of the computer operators both at the head office and at the units.
- ✦ Increase the communication flow between the head office and the units, resulting in higher operational quality.

VWS needs to follow the established industry benchmarks. BASIX, a leading MFI, has already started using mobile computing technologies in its MFI operations. It facilitates transaction processing, information collection and dissemination, directly at the field level.²⁰ VWS can replicate the same model for its MIS but its viability and cost needs to be seen in the context of its own requirement and scale of operations. Future expansion strategies will depend heavily on the accessibility of branch offices and the reliability of branch. Improving upon both of these elements will allow for more efficient MIS and decision-making processes with the organization.

19 As mentioned, some branches allow a second round of credit to be disbursed after the completion of 30 weeks/ installments, while others require payments over 40 weeks/ installments.

20 The customer service agent takes with him an easy-to-carry kit, which contains the Palmtop computer with the required application software, mobile printer and a modem. The user performs all the required transactions using the kit and synchronizes the data with the unit office back-end system at the end of the day from any public call office using the modem.

Overall, despite the need to address challenges from improving organizational and operational processes to updating its MIS, VWS has reason to be proud of its microfinance program, which has served the urban poor in West Bengal for 11 years. In the last year, VWS has achieved significant growth, and is poised to expand further. Going forward, however, senior management will need to analyze the organization's operations and employees' performance more closely. VWS will have to decide whether future growth should be attributed to establishing more branches, mobilizing more clients, networking and integrating systems, or even graduating clients to other types of products and services, such as individual lending. At the branch level, managers must take advantage of VWS' market presence, infrastructure, funding capabilities, and head office support to maintain a competitive edge in the area. Improvements in efficiency and productivity made by the CVs will also increase the profitability of VWS' products. In general, VWS managers will have to start implementing steps to bolster the organization's growth and productivity. Defining business targets, job descriptions, and incentive schemes to focus staff on customers and products would be a step in this direction. As VWS' program grows, creating more opportunities in microfinance and offering specialized training for CVs could be used in microfinance management positions, helping to motivate and retain good CV staff. Finally, for ongoing monitoring and decision making, a more detailed analysis could provide important data that will help VWS understand additional factors needed to improve overall performance and further develop the microfinance market in West Bengal.

SHARADA'S WOMEN'S ASSOCIATION FOR WEAKER SECTIONS (SWAWS)

Evolving Strategies for the
Holistic Empowerment of
Women



By Sudha Krishnan
& Keerthi Kumar

Overview

Since its inception in 1999, Sharada's Women's Association for Weaker Sections (SWAWS) has aimed to provide regular and easy credit access to economically disadvantaged women for self-employment, housing, educational, and other needs by adapting the Grameen Bank's methodology in South India.¹ SWAWS works to evolve strategies for holistic empowerment of women, and promotes economic and social betterment of its members through thrift, self-help, and mutual aid in accordance with the principles of cooperation. SWAWS's business strategies to carry out this mission and meet the needs of its urban, low-income female clientele include:

- » **Initiating vocational training classes linked to clients' livelihoods.** Though SWAWS recognizes that many potential clients are unfamiliar with owning or operating a business and are looking for ideas to take advantage of emerging livelihood opportunities. SWAWS will take advantage of the fact that access to finance goes hand-in-hand with providing the appropriate skills and vocational resources needed to utilize credit, for example.
- » **Creating market-friendly environments for micro entrepreneurs.** From enhancing product design by including specific features to advertising and distributing goods where they are wanted, the involvement of SWAWS staff and marketing partners can be critically important; it is essential that clients' products are developed with an understanding of potential direct and indirect costs in the marketing and sale of their goods.
- » **Searching for a unique niche in the competitive Andhra Pradesh market.** Hyderabad's "Old City" is known for its old-world charm with colorful and diverse bazaars and breath-taking visuals of busy men in tiny shops selling everything from pearls to various Indian breads fresh out of the ovens. Yet given the area's conservative and traditional populace, women are often resigned to home-based work while men work in the marketplaces. Despite a growing presence of MFIs in the city, which is referred to as the microfinance capital of India, many have chosen not to expand their operations to the Old City, which is perhaps Hyderabad's largest untapped market for microfinance. However, there are serious concerns about dangerous working conditions and unsound practices stemming from a general lack of law and order among the populace. Microfinance practitioners fear unproductive utilization of financial services, greater recovery risk, and security dangers for staff carrying cash and working with groups of women. SWAWS, like other organizations, was initially apprehensive about these parts but once branch managers near the Old City began receiving feedback from existing clients regarding the potential to disburse credit in the controversial locality, the organization took the initiative of exploring the area. The discovery that there was indeed demand and a handful of women who were interested and eligible for general loans led SWAWS to commence operating in Uppugudda, adjacent to the famed Charminar area, and extend financial services to this previously neglected niche.
- » **Developing a gender-sensitive hiring policy that supports outreach to women and a gender-equitable work environment.** Women in peer-lending models often show leadership qualities as a result of the economic and social empowerment fostered within the group itself. This means that certain group members could work with an NGO/MFI such as SWAWS, to market the organization's products and services to peers.

¹ A pioneering MFI in Bangladesh that has attracted worldwide attention because of its innovative and highly successful group-based lending program.

Few MFIs in Andhra Pradesh have been able to address the specific needs of micro entrepreneurs. SWAWS is developing its own solutions, under the aegis of the Grameen Bank, to help women build self-confidence and gain control over decisions that affect their lives by using information, training, and support extended by SWAWS. By taking advantage of a huge market opportunity and innovating ways to increase the outreach of microfinance, SWAWS aims to enable urban poor women to make the leap from poverty to prosperity.

Introduction

SWAWS was created to provide poor women with educational loans to send their children to school. One year before the inception of SWAWS, the founder and President, Mrs. R. Girija, started a free tuition center for students from underprivileged backgrounds, particularly girls who had dropped out of school. Local youth were discouraged from continuing their education because of frequent disturbances by local drunks and a lack of tutorial support. As Mrs. Girija's tuition center gained in popularity, due to its accessibility and high quality teacher, nearly 200 students enrolled. Once local mothers expressed their great satisfaction over the program and desire to continue educating their children at the center, Mrs. Girija found herself having to explain the difference between the tuition center and a recognized school. As many women could not afford the school fees, Mrs. Girija took it upon herself to find a funding source for these mothers.

During her search, SWAWS' founder encouraged local women to start saving among themselves so that their children could have greater opportunities, such as going to school. This resulted in the formation of self-help groups (SHGs) where women could collaborate, save, and open a bank account at a nationalized bank. In 1999, ten groups of ten members each were formed. Under the aegis of the Asmitha Resource Centre for Women (ARCW), a local conscious-raising organization, SWAWS registered itself as a society in 1999. After its legal structure was finalized, ARCM agreed to advance Rs. 1,000 to each SHG stipulating a monthly repayment schedule and the condition that funds were to be used only for school fees. Thus, the first education loan was disbursed on August 15, 1999, India's Independence Day.

In March 2000, a group of 20 SWAWS clients approached the organization seeking loans to finance their broomstick businesses; the promoters investigated the matter to discover that the women could earn approximately an additional 26% margin on the broomsticks by selling door-to-door and to local shops. Based on this finding, SWAWS' founder not only lent Rs. 5,000 to each woman on behalf of ARCM, but took the initiative of conducting a market survey that confirmed the great potential for microfinance to local women, particularly given their solid earnings from various entrepreneurial activities. Thus began SWAWS' microfinance practice in March 2000 with the disbursement of the organization's first income-generation loan.

THE URBAN MARKET

The southern state of Andhra Pradesh has been a vanguard of India's microfinance movement. With an urban population of over 20 million, nearly 27% of Andhra's total population, there are currently over 500,000 SHGs with seven million members that are linked to microfinance institutions (MFIs). The urban phenomenon across India is intensifying, with a market of 280 million people, which is about 28% of the population, according to the 2001 census. This market is expected to grow to over 600 million by the year 2030, with the urban poor as a significant portion of this growth.

SWAWS

BUSINESS STRATEGY

In the short run, in order to improve accessibility and outreach, SWAWS plans to install 17 branches across Hyderabad city, out of which 15 have been introduced. In the medium run, SWAWS plans to start operations in metropolises and tier-two cities across India, with the intention of establishing a strong presence in at least five states, including Tamil Nadu, Karnataka, and Maharashtra. The organization is expanding into the neighboring state of Orissa, with operations already in place in the capital city of Bhubaneswar and plans to move into Puri and Konark. In addition, SWAWS will offer individual loans to new clients as well as group members that have gone through at least six loan cycles. These women will be known as 'star borrowers'—individuals who have demonstrated sound financial discipline, particularly in terms of asset building and timely repayments.

ORGANIZATIONAL STRUCTURE

Legal Structure

True to its developmental roots, SWAWS has remained an NGO focused on providing welfare activities to the urban poor through education and livelihood enhancement. When an NGO enters into microfinance, it faces a number of issues, particularly in terms of managing financial sustainability and the size and depth of operations. In addition, the not-for-profit legal structure typical of NGO-MFIs is one of the greatest hindrances in the sector, given the lack of regulation and standardization. Furthermore, NGOs are prohibited from taking savings altogether. It is recognized that poor households need access to secure savings services as much as they require credit, and since a large part of this demand remains unmet, they often rely on informal and unreliable sources to save.

Given that the organizational form of an NGO is not suited for carrying out and/or scaling up financial activities, SWAWS is seeking to change its legal structure from an NGO to a non-banking finance company (NBFC). However, the minimum start-up capital requirement of Rs. 20 million has been difficult to mobilize. The most important implication of operating as a NBFC is that SWAWS will have a path towards offering savings, once a satisfactory rating is obtained after at least three to four years of operating. As an NBFC, SWAWS will be able to both scale-up borrowings and attract equity investors. Moreover, as the organization grows and offers a greater number of products in various geographies, its for-profit structure will facilitate access to commercial funding and expansion of its operations to achieve its vision of reaching out to 500,000 clients across the five states in which SWAWS is scheduled to operate by 2010. Currently, SWAWS has over 50,000 clients in Andhra Pradesh alone, and the organization's promoters are striving to cater to an additional 200,000 customers.

OPERATIONS

Customers

SWAWS clients are primarily self-employed women earning monthly incomes from Rs. 1,800 to Rs. 5,000. Most women are occupied with various economic activities such as selling saris, tailoring, running petty shops, and making garments. With a general loan from SWAWS, women are enhancing their income generating capacity by buying an additional sewing machine for a tailoring business or

adding a phone booth to a petty shop. Regardless of the type of business a SWAWS client is running, it is common to most women that there are few decent alternatives to obtaining financing apart from a MFI. In the absence of MFI assistance, most resort to informal lending sources like local moneylenders, pawn brokers, friends, and/or relatives who themselves may be financially constrained. In Hyderabad, the variety of options available to these entrepreneurs is increasing, particularly since MFIs are working to reduce costs for their customers, create new products to better meet client needs, and improve the quality of service offered.

Going forward, SWAWS will also need to consider the increasing needs of salaried workers. Currently, only about 25% of SWAWS customers are salaried, often working as laborers and taking out loans for household use.

Products & Services

As SWAWS continues to expand within Hyderabad and beyond, it is focused on offering two major products to its clients: general and educational loans. The purpose of offering a loan for general use is to primarily help clients increase their earning capacity. The ideal client for such a loan is a self-employed micro entrepreneur who can vary in occupation from making and selling snacks like pani puris to running a grocery store. The loan can be used for purchasing inventory, setting up shops, buying livestock, or supplementing numerous other business activities. With loan amounts ranging from Rs. 5,000 to 15,000, this credit product has an interest per annum of 12%, repayable in equal weekly installments within 50 weeks.

SWAWS is also offering savings to its clients through mutually aided cooperatives (MACs), in which a client contributes Rs. 10 each week to her account. The regular contributions entitle them to withdraw up to 50% of the fund, which consists only of individual members' savings, for emergency use. Since SWAWS clients generally do not have their own bank accounts, the client servicing agent (CSA) often collects savings and makes deposits in the MAC account on behalf of the individual member.



"I often save a part of the loan for emergencies, in case my husband needs any money or to pay for my children's school fees. Then, I use what is leftover for my tailoring shop. My friends and I are also making incense sticks together, so if I have a bad month at the shop, with few customers, I can depend on this other business for extra income."

—Sunaja, 28, seamstress

"Earlier, I had a savings account at the State Bank of India, where I kept Rs. 100 each month for nearly ten months. Awhile back, about three years after I first opened account, I unlocked my savings fund of about Rs. 2,000. I closed the account because I didn't feel like I got anything out of investing at the Bank for nearly three years. Also, to make deposits in that fund, it would take too much time and money for me to go to the branch."

—Saroja, 30, vegetable vendor

"When times are bad, I may not sell enough to cover my family's expenses. Still, we understand how important it is to repay SWAWS, because we want to get bigger loans from them. My husband wants me to take out a loan for him to buy an auto. When I received Rs. 10,000 to expand my shop, I kept Rs. 3,000 separately only for the weekly repayments. I don't want to run out of money to repay, especially since if I need cash, I won't be able to sell my phone box that easily."

—Ganga, 35, petty shop owner

"I like being in a loan group with women from the neighborhood. We have become good friends. At the beginning, I used to worry about being to repay my own loan, and maybe having to repay for others. But we really support each other and encourage one another to keep money aside, so at least we will have money saved for repayments."

—Benedicta, 33, tea shop owner

PRODUCT NAME	GENERAL LOAN (Income Generation, Asset Development)	EDUCATIONAL LOAN
Average loan size or range of loan size	Rs. 5,000 – 15,000	Rs. 500 – 5,000
Loan term	1 year	1 year
Number of installments to be paid	50 installments - weekly basis	10 installments - monthly basis
Interest rate	12% flat	12% flat
Any associated fee or upfront deduction from the disbursement amount	2%	2%
Proportion in the total loan portfolio	99.9%	0.1%

SWAWS stands out among its competitors in Hyderabad since it first focused on social development objectives, such as access to education for children, before providing its clients access to micro-credit. Its education loan has been re-introduced in the form of monthly individual loans (MIL). SWAWS's credit offering to individuals may only be used for educational purposes or income generating activities. Individual lending is also to be offered under a different brand name, given that the organization does not want to disappoint or alienate existing SWAWS clients who may not be eligible for these loans. By creating a new name for this business, SWAWS will be able to separate its activities between peer-based and individual loans. As these loans will tend to be in larger amounts, upwards of Rs. 20,000 to cover yearly school fees, SWAWS recognizes there could be additional security concerns within the distribution channel. SWAWS feels it will be necessary to disburse individual loans by cheque as an added safety measure. In order to avail this facility, however, potential clients interested in individual loans must have bank accounts in which they can deposit the cheques. Thus, the target clientele for the MIL are those that are capable of opening bank accounts but still find their financial needs largely unmet. SWAWS is also allowing some of its reliable clients access to larger loans specifically for educational purposes, helping to improve the quality of life for both women and children.

SWAWS continues to develop new products, such as insurance and pension schemes. They have tied up with ICICI Lombard Insurance Company to extend general insurance and with Royal Sundaram to offer accident insurance. SWAWS also arranges for a cash payment of Rs. 500 to a family within hours of the death of a family member. Currently, SWAWS is looking for corporate partners for a micro pension project. Much of senior management is attending training on the subject to better understand how to attract investments from self-employed clients in the unorganized sector.

Distribution Channels

Because microfinance was relatively unfamiliar to SWAWS prior to commencing its operations, the organization chose to start working through the Grameen Bank's peer-lending model. Officers, known as client servicing agents (CSAs), visit target areas to conduct initial surveys on potential clients by gathering information such as age, location, income, occupation, education, length of residence in the slum, and family details. Once SWAWS has identified potential clients, women are invited to attend an introductory meeting. At this projection meeting, SWAWS staff members inform residents about the organization's objectives, products, policies, and procedures.

After the initial meeting, potential clients are informed that a CSA will return to the area in a few days, and those who are interested in attending can self-select into groups of five. The formation of groups—the key unit in SWAWS's distribution—is the first necessary step to save with peers, and, gradually, receive credit from the organization. Basic training is required for all potential members to assure complete understanding of the rules and procedures of the group lending as well as credit system. The compulsory group training (CGT) is conducted for one hour a day for three to five days by a CSA. The training covers the financial products offered by SWAWS in addition to teaching

other essential skills, such as writing a signature. The training period is also used to inculcate a pattern for mandatory weekly meetings and credit discipline. During the CGT, a SWAWS branch manager and CSA also conduct qualitative evaluations of group members, known as a group recognition test (GRT), to ensure each member understands the policies of the organization, is poor, and a resident of the area. It is worth noting that the organization only allows two clients per group that are tenants and not homeowners in order to ensure a degree of stability is maintained among each group. On the 5th day, after successful GRT completion, a group forms a Center.

The Center consists of three groups, totaling 15 members. The Center meetings are held weekly to disburse loans and collect savings and repayments. In addition, these meetings provide an opportunity for group members to discuss loan requests, loan utilization, and even community issues. Each group selects a leader who is responsible for facilitating meetings, ensuring compliance with procedures, and maintaining the environment created during the GRT. SWAWS makes all loan disbursements on a cash basis. However, unlike the time-delayed disbursements typical of the Grameen Bank model in which the neediest individuals receive credit before other group members, according to a breakdown of 2:2:1, SWAWS disburses loans to all group members simultaneously.²

A point to note is that SWAWS undertakes each step of distribution itself, including group formation, without outsourcing any of the activities to other organizations. During this process, SWAWS has actively worked to reduce information problems and other challenges to operating in the urban space, such as migration, by developing carefully chosen borrower eligibility requirements such as having clients produce voter identification, ration cards, or electric bills to confirm she is a resident of the target locality. This stipulation has been included to address any migration problems that may arise, since high-risk clients, who may want to escape repayment by returning home to villages, will not be included in the groups. The problem of adverse selection is also solved since group members will have better information on each other if they are known to each other for some time.

This lack of outsourcing, however, has placed greater strains on the organization's ability to closely monitor loan utilization by clients. As the organization continues to increase operations, each CSA is less able to spend time with individual clients and check the utilization of loans, which not only has implications for the organization's exposure to risks but also the extent of the impact of access to credit on the urban poor's well-being.

Scalability and Sustainability

Until recently, it could be argued that many NGOs and MFIs expansion efforts were slowed down by the lack of resources. As organizations grow, adopting structured, professional financing strategies becomes even more important.³ (*See Text Box on 'Financing Microfinance'*) Thus, attracting commercial capital could be an effective way to help organizations grow, given the increased ability to provide financial products to potential customers, to develop new offerings like insurance, for example, and to improve the quality of service with additional human and working capital available. In addition, ac-

2 2:2:1 means that, ideally, the first 2 neediest members receive loans, who are then under pressure from fellow members to repay on time. If either one of the first two or both borrowers default, the other members of the group forfeit their chances of receiving a loan. Only after the third and fourth members have started repaying, in addition to the first and second individuals, will the final member, who is often the group leader, receive a loan.

The reasons for SWAWS choosing to deviate from this practice are driven by competition. In Hyderabad, in particular, many aggressive MFIs are disbursing loans to their group members all at once, effectively bypassing the well-established procedures developed by Grameen to instill financial discipline among the poor over time. Thus, if SWAWS was to adhere to this traditional practice, the organization would risk losing existing customers to larger players that issue loans within three days of clients completing the initial training program. Though these new strategies are increasingly discouraged by financiers, such as ICICI, for reasons related to risk and short-term gains, more and more MFI players view these as technical issues and are choosing to concentrate on implementing tactics to attract new customers.

3 Sousa-Shields, M. & King, B. *MFI Financing Strategies and the Transition to Private Capital*.

FINANCING MICROFINANCE

Nearly all NGOs/MFIs today, which have moved beyond initial growth, mention lack of equity as the biggest constraint they face in scaling up. Though most of these institutions operate on a small scale, they face high debt-equity ratios since their promoters, who are often social entrepreneurs, have little access to risk capital. Given that the microfinance sector has not yet attracted mainstream investors on a large scale, domestic sources of equity are also limited. This equity financing constraint has led prominent MFI leaders to lobby for the inclusion of micro credit as one of the areas in which FDI is allowed in NBFCs. However, though many institutions would like to pursue this strategy, few are able to meet the minimum capital requirements (\$500,000 from foreign sources for 51% stake). The implication of the existing regulation is that a MFI will need to match any foreign equity it receives with Indian equity. In the event that an institution

is able to achieve this feat, operational growth requires that a MFI maintain adequate capital. For every Rs. 10 million of credit issued, for example, the organization will have to raise an additional Rs. 1.5 million in equity.¹

Financing microfinance usually requires both equity and debt. In the case of SWAWS and others, debt means receiving a line of credit through long term loans issued by ICICI Bank, HDFC, UTI, Small Industries Development Bank of India (SIDBI), or other large financial institutions for geographical expansion. Currently, SWAWS is lacking equity holders, but this situation is expected to dramatically change once the organization transforms into a NBFC and has the possibility of working with microfinance equity funds, such as India's Bellwether or Unitus in the U.S., for example.

1 "The Bellwether Microfinance Fund," Investment Proposal to ICICI Bank

cessing capital from commercial sources will place organizations under greater pressure to maintain rigorous financial discipline and constantly improve operational efficiency.

Today, even in urban areas, which have been long ignored by the sector, there is increasing competition among MFIs. SWAWS's perspective is that the microfinance market is large enough for multiple players, and, recently, local MFIs, including Spandana and SHARE reached a consensus not to disturb or 'poach' clients and instead to concentrate efforts in a given area that does not interfere with its competitors' operations.

FUNDING FOR THE INITIATIVE

Following initial support from ARMC, SWAWS also benefited from funds contributed by Friends of Women's World Banking (FWWB).⁴ Beginning in 2001, FWWB helped SWAWS gain professional exposure by organizing various workshops on effectively servicing the poor, particularly in terms of developing and pricing appropriate products. Until 2004, SWAWS was solely dependent on funds from the FWWB Loan Fund, using it to lend Rs. 39,000,000 between April 2001 and the end of March 2005.

In December 2004, given that SWAWS did not want to wait until receiving its NBFC license from the RBI to expand its operations to reach a greater number of the urban poor, it found that ICICI's partnership model was a perfect interim solution. (*See Text Box on 'ICICI Bank's Partnership Model'*) The unique innovation is that the NGO evaluates, recommends, originates the loans, helps in disbursal and, subsequently, tracks and recovers loans as the Bank's agent. In terms of the organization's financial performance, with only 0.25% of the portfolio at risk (PAR), and a debt to equity ratio at 89:10.9, SWAWS is fully capable of supporting safe and sound operations.⁵

4 FWWB is a non-profit organization established as an affiliate of Women's World Banking that seeks to expand informal credit support and networks within India.

5 SWAWS calculates PAR at the conservative overdue cut off time of 30 days.

ICICI BANK'S PARTNERSHIP MODEL

In 2002, ICICI developed the partnership model, in which the NGO/MFI acts as a collection agent instead of a financial intermediary. The NGO/MFI sources loans directly in the books of the Bank, and continues to monitor and recover loans that have been disbursed. The NGO/MFI then acts as the originator and service provider of loans on an ongoing basis. What is unique about this model, in particular, is that it combines debt as mezzanine finance to the NGO/MFI. This benefits NGOs/MFIs since this source of financing, which a blend of debt and equity, is treated like equity in the balance sheet,

and allows organizations to raise money without additional equity. Technically, the loans are contracted directly between the bank and the borrower, meaning the risk for the NGO/MFI is separate from the portfolio's risk. This implication of the model for the NGO/MFI is that it will have great leveraging capacity, given its assured access to a source of funds for credit expansion. Without capital constraints, the institution can rapidly increase its outreach. ICICI can learn from these organizations, benefiting from their core competencies like social mobilization, while avoiding costs associated with directly entering the market to serve low-income segments.

Opportunities & Challenges

Taking lessons from its education program, SWAWS has designed a microfinance initiative that has created the following opportunities:

- » **Providing opportunities for self-employment through vocational training courses that not only teach new skills but develop existing talents that clients possess.** SWAWS is currently working to help poor urban women that have expressed interest in becoming increasingly economically active by providing a training program that not only teaches vocational skills for self-employment but also small enterprise management, where clients could learn how to effectively use borrowings, promotional methods for their products, and even human relations. The overarching goal of such a program is to facilitate a learning opportunity for clients' personal and professional development, while the organization benefits from ensuring that loans are invested properly and profitably.

Keeping this in mind, vocational training offered to microfinance clients should be developed based on market research to ensure programs are demand-oriented; implemented in the same areas where credit is offered; should be of high quality and enable participants to compete in the open market; should be avoided for manufacturing/production of seasonal items; should allow participants access to quality raw materials to train with and produce tangible products at the end of the sessions; and provide program leaders with necessary materials and tools. Given these demands, SWAWS is considering outsourcing training to organizations with greater expertise in teaching vocations in which clients have expressed interest.¹ For example, SWAWS is working with the National Academy for Construction to develop a training program for both women and men in masonry, carpentry, and other construction work; those who complete the course can be placed with affiliated construction companies. In order to cover the costs of such a program, after a given period of assistance, SWAWS may require that its clients repay the organization for the training offered to them.

- » **Collaborating with institutions specializing in marketing to help micro entrepreneurial clients build careers and boost their businesses.** To carry out this new initiative, the organization is in discussions with the Center for Bharathiya Marketing De-

¹ In the event that SWAWS chooses to work with various partners that have greater expertise in training certain vocations, the implementing organization would have its own budget for the vocational training program, helping SWAWS keep track of the resources required for capacity development, which should be differentiated in the cost-benefit analysis at the financing level.

partment (CBMD), a local marketing firm that focuses on goods produced by micro enterprises by conducting exhibitions and shows across India. SWAWS will identify clients involved in promising micro enterprises from its existing customer base and link these individuals with CBMD to receive training, develop technical knowledge, and learn about other resource requirements. SWAWS envisions removing itself from this linkage after some time, allowing CBMD to directly fund individual micro enterprises. In return for this service, SWAWS expects to earn a service charge from CBMD.

Based on the success of this strategy, SWAWS may even choose to remove some of the entrepreneurial burden from a new micro business, once again following the example of the Grameen Bank. Beginning in 1995, the Bank opened separate businesses known as Grameen Textile Company and Grameen Knitwear Company,

which is a knitwear factory that exports 100% of its products handmade by clients to Europe, to help clients market their handmade goods. Thus, beginning with marketing assistance for clients' products, SWAWS could establish similar not-for-profit companies.

- » **Increasing outreach to identified niche markets.** SWAWS has identified niche markets in and around Hyderabad such as Charminar, Uppugudda, where, as mentioned, risks in terms of recovery are much higher. Daring to enter these controversial areas in order to provide the same access to financial services available to others remains a key distinguishing feature of SWAWS. SWAWS will experiment with operations in this area for one year, after which it will decide about scaling up activities.
- » **Hiring female field staff to increase outreach in isolated groups.** As a result of recruiting female employees from within groups, the organization has developed a gender-sensitive hiring policy that supports outreach to women and a gender-equitable work environment. By hiring female field staff, SWAWS has found qualified individuals who are typically an important element in building a corporate culture that supports outreach to women. In fact, female staff members have the potential to significantly expand SWAWS's outreach to female clients, thereby increasing the organization's client base and potentially enhancing its financial performance.

SWAWS strives to provide financially and professionally rewarding careers to hire and retain talented individuals, particularly from within target communities, thereby further motivating field staff when discussing the organization's products, recruiting customers, holding group meetings, and so on. The CSA team works to achieve a strong presence in the slums, mean-

SWAWS AT A GLANCE (AS OF JANUARY 31, 2006)

OPERATIONAL HIGHLIGHTS	TOTAL
No. of Centers	2955
No. of Groups	9061
No. of Members	44812
No. of Active Loans	44165
No. of Active Clients	44165
No. of loans disbursed	44165
Value of loans disbursed (Rs. in lakhs)	3176.47
Gross Loan Outstanding (Rs. in lakhs)	2756.43
STAFF STRENGTH	
No. of Credit Officers	118
Other staff	39
No. of Districts	4
No. of Villages/slums	2293
PORTFOLIO QUALITY	
Repayment Rate	99.2%
Average Loan Size	7172
Average loan Outstanding	6361
Portfolio at Risk (%) (> 30 days)	0.25%
EFFICIENCY RATIOS	
Number of active clients per Credit Officer	339
Number of members per Credit Officer	340
Portfolio outstanding per Credit Officer (in Rs.)	20.73

ing there is a greater degree of comfort for customers when interacting with SWAWS in making repayments or suggesting new products and services required.

While SWAWS has already overcome a number of challenges in providing banking services to poor urban women, scaling up operations, particularly during the organization's transition to a for-profit entity, will bring additional challenges:

- » **Managing change:** One of the biggest challenges for SWAWS will be the transition from a NGO to NBFC. The organization will have to focus on the financial bottom line. This means that greater investments in technology may be required as well as emphasizing efficiency improvements; yet the organization need not compromise its social mission. The organization must manage this fundamental change by embracing the financial indicators and targets of a traditional for-profit business. It will be necessary for both managers and staff to understand that meeting financial goals will, in fact, help them to serve more of the poor, and therefore improve the quality of life to a greater number of low-income Indians. At the same time, transition will involve reevaluating minimum loan amounts as well as the types of customers that SWAWS may want to target. As a for-profit organization, SWAWS may find itself moving away from competing with NGOs that lend very small amounts of money to customers.
- » **Individual lending:** In addition to offering MIL to new clients, SWAWS anticipates the need to work with current group members that have built up exceptional track records with the institution and graduated out of peer-based lending. An organization introducing individual lending, however, must keep in mind the sorts of personnel and process changes required.
 - ☛ The skills required of CSAs and branch staff managing individual products is different than group-lending, where employees are often mechanical in their routines. Now, CSAs with higher educational background may be beneficial, given that those trained in finance or economics will be able to understand financial analysis to approve loan applications. Yet while professionally-minded staff is required to run a NBFC, it is important to hire individuals that can connect with customers by speaking the local language or hail from similar backgrounds. The ideal CSA embodies an even balance of these two mindsets.
 - ☛ Another issue that is often overlooked by organizations lending to individuals until it is too late is MIS. Developing the appropriate technology that will last and translate across circumstances is critical. MIS is also important because it allows for transparency, which then adds to an organization's credibility. People trust those they view as credible, and a banking relationship requires trust.



"First, I was a client of SWAWS. When I became the leader of my Center, I took a lot of pride in making sure that the other women used their borrowings productively and also repaid the organization, since a lot of us did not have any many options before SWAWS came along. When the CSA and branch manager visited my center's meetings, they were impressed at how I handled the groups and offered me a job with the organization. Today, I help form new centers and oversee 43 out of the 207 that this branch manages."

—Veena Kumari, SWAWS CSA

- » **Risk management:** While a majority of SWAWS's loans are sourced under ICICI's partnership model, as described, the organization's promoters have found that there can be disadvantages to working with such a large financial institution, such as a lack of recognition and unequal risk sharing.

☛ A major challenge for SWAWS in the partnership model is that the organization may not develop a brand name while servicing customers.² Without an RBI license and assured access to equity, it would be very difficult for SWAWS to continue operations and expansion. However, the lack of building its own image and brand in an increasingly competitive sector is a significant draw-back. The organization's staff may lose a sense of purpose while operating only as a subsidiary of the Bank under ICICI's name.

☛ Aside from a lack of recognition, the SWAWS team, particularly branch managers, views the large amount of risk the organization bears as another shortcoming of the model. SWAWS fears that the deposit amount required under the partnership model may be too large to mobilize, and perhaps further innovation is required so that this stipulation in the model is more manageable.

The recently highly publicized problems in Andhra Pradesh are largely linked to this situation. (See Text Box on 'Recent Developments in Andhra Pradesh') Currently, the rate of FLDG for SWAWS is 12%, while its main competitor obtained a FLDG rate of 10%, with the implication being that microfinance clients visibly observe dramatic differences in their end costs.³ Therefore, for the model to be really beneficial to all parties on a level playing field, it is critical that both parties work together in revisiting the terms of the partnership so that ICICI, SWAWS, and microfinance clients can benefit from the model.

*"Microfinance is not charity. It is a way to extend the same rights and services to low-income households that are available to everyone else. It protects people against shocks, and allows the majority of the population to become part of a country's economic activity and contribute to their communities' economic and social progress. It can help to build markets, and show that profits and principles can reinforce each other. Just as important, microfinance recognizes that poor people are part of the solution, and builds on their ideas, energy and vision."*¹

—Kofi Annan, United Nations Secretary-General

1 United Nations Capital Development Fund Home Page

- » **Communication and training:** SWAWS's expansive network of branches across Hyderabad, reaching even risky areas in the Old City is one of the organization's key strengths. This extensive coverage, however, adds to operational challenges in maintaining effective communication among the head office and branch employees. Some CSAs have expressed concern over the lack of sufficient communication, training, and motivation from the head office. At the same time, while managers come up with new initiatives for training and motivation, field staff may be unaware of these ideas. As SWAWS plans its growth, the organization will need to create more effective communication channels, in addition offering further training and capacity building on a larger scale, among staff at all levels. The organization will soon be establishing operations in Tamil Nadu, and, as with its expansion into Orissa, senior management will need to ensure that field staff is well versed in the local labor market, clients' needs, proper assessment procedures, client interaction, and so on—all which can be included in

2 RBI regulation does not allow for a third-party brand for loans under the existing partnership model.

3 The implications of these highly noticeable variations for microfinance practitioners across the state included recovery problems, an increase in drop outs, poaching of clients by competitors, negative publicity, and local political interference, as clients and locals accused NGOs and MFIs of charging exorbitant interest rates to the poor while drawing comparisons with local moneylenders.

training modules for new and existing staff.

- » **Competition:** The degree to which MFIs operating in the same geographic area, share information on defaulters and current indebtedness with others, and other kinds of negative and positive information, is critical. Information sharing (or the lack thereof) plays an important role in lending and other micro financial activities.

A real world example of this could be if 'dynamic incentives' stop working to ensure repayment as competition increases. What is often seen today is that a client's relationship with the NGO/MFI and the possibility of doing business with the organization

in the future causes him/her to repay a loan. As competition increases, however, between SWAWS and other players, for example, if the organizations do not share information with each other, a client could be free to continually default from organization to organization. This is more relevant for individuals, since joint liability in groups reinforces repayment, and groups as a whole are unlikely to go from MFI to MFI. Given the proliferation of MFIs in the Hyderabad area, SWAWS and others will have to be aware of these information problems, some of which could possibly be resolved with the creation of a credit bureau as seen in advanced credit markets.

RECENT DEVELOPMENTS IN ANDHRA PRADESH

Recently, in March 2006, over 50 branches of two prominent MFIs in Andhra Pradesh (AP) were closed due to allegations that these institutions were using coercive measures to collect repayments from their clients. The local district collector was under the impression that the high rates of interest and multiple loans imposed on clients by these institutions had led much of the already vulnerable poor into a debt trap. The local media also had a role to play once networks issued multiple derogatory statements that further tarnished the images of microfinance organizations in the eyes of the public. Within two AP districts, in particular, many clients refused to make repayments on their loans since the district collector had announced it necessary for the poor to repay the seemingly exploitative lending institutions. On March 21, 2006, Sa-Dhan, the national association of community development financial institutions, drafted a voluntary code of conduct to be applicable to and practiced by all local MFIs. The 12-point code of conduct covered four main themes of complimenting credit delivery strategies by SHGs, interest rates and savings, loan recovery, governance and leadership, and institutional transparency. It was also noted that MFIs, from then onwards, were to be prohibited from servicing loans at effective interest rates greater than 24%. The highly-publicized issue remains under contention, given that some Members of the Legislative Assembly (MLAs) in the affected districts were quoted by the local press stating that microfinance clients had defaulted due to misusing loans without investing funds for productive purposes.

Conclusion

SWAWS is an organization that has successfully broken many assumptions about the ability of NGOs to make a foray into microfinance as practitioners themselves. Looking at poor urban women objectively and rationally, the promoters became aware of a huge market opportunity. The SWAWS case demonstrates several key lessons including:

- » Women have specific financial problems, and present special opportunities to lenders. It is important to note that very few women had access to financial resources before SWAWS began operations in the slums. When clients were asked why they had not previously borrowed, they cited two major reasons. First, clients often referred to the non-availability of finance from

the formal sector.⁴ Second, many women suffered from a fear of indebtedness, particularly to a moneylender or pawnbroker. Since joining SWAWS, clients have expressed to CSAs that the group mechanism employed by the organization has helped them to overcome this fear, since fellow group members can help each other smooth outflows, especially if one woman/family in the group is going through a hard time. Because of SWAWS,



more and more women have gained the confidence to borrow, not only because of comfort in the security factor of the group but also since the organization clearly explains the terms and conditions of their products and services.

- » Micro credit is only one element in improving the lives of the poor, but SWAWS does not need to become the single-source organization for all necessary services. SWAWS remains focused on offering micro credit to its entrepreneurial clients, and will collaborate with companies that can better offer other equally important services. The operational processes required to support these activities, such as offering savings facilities, is still managed by SWAWS in order to help ensure successful outcomes in an integrated development program.
- » Growth based on an increasing loan portfolio should not be the basis of measuring a MFT's success. SWAWS does not solely evaluate success in terms of financial indicators of repayment or outreach. The organization's objectives tend to incorporate the provision of a larger range of financial and social interventions, through providing professionally and financially rewarding careers for employees, accessing better and greater financing sources, and collaborating with various partners.^{5 6} SWAWS also recognizes the long-term importance of maintaining education inputs to children, and has, from the beginning, adapted their procedures to take this philosophy into account.

In addition, for women that have previously rarely come into contact with a significant amount of money, a loan from SWAWS can lead to greater feelings of self-confidence and self-worth. With access to credit, a woman may further access a community of women and services that SWAWS may be offering, in terms of education and vocational training, meaning she gains the ability to participate in social networks and social programs, which could enhance her opportunities and empowerment. In fact, the creation of a regular forum in which large groups of poor women come together to meet and talk could represent a 'breakthrough' in social

4 This, however, may have been a foregone conclusion, given that, in most cases, many did not have a bank account and/or had never tried to obtain a bank loan. In other cases, where women had tried to get a loan, it was required that they furnish an income tax statement or proof of income, which they simply did not have. This lack of requisite documentation is an often cited difficulty in catering to the urban space.

5 Copstake, J. "Poverty-oriented financial service programmes: Room for improvement?"

6 SWAWS has plans to partner with Hindustan Lever Limited in the Project Shakti initiative where microfinance clients that own petty shops can procure HLL products directly, thereby cutting out the middle-man and increasing their margins. The organization works with the National Academy of Construction (NAC) to train clients in masonry. In collaboration with Satyam Foundation, SWAWS offers various training courses for women employed as housemaids. And, as mentioned, SWAWS will partner with CBMD to provide training for micro entrepreneurs.

norms and a certain reduction in isolation experienced by many women.⁷ This in itself is a powerful indicator of a MFI's success.

The overarching principle of SWAWS's operation is a market-led approach. The organization's strategies are based on first understanding what customers need and what they can afford to pay, and then designing products that meet those needs at that price, within the limitations of the ICICI partnership. With these objectives in mind, it is clear that the organization is strategizing its way to successfully transforming into a MFI by not only operating in the presence of fierce competition, but also sowing the seeds to establish itself as a community development financial institution (CDFI) that runs short- and medium-term activities to anticipate and respond to changes in customers' demands in the future.

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