

## *Is Financing Mobility a Solution to Poverty?*

Poverty and unemployment persist in many parts of rural India. Income derived from agriculture is often not enough to sustain a family, and underdeveloped agrarian regions offer few other employment opportunities during the months between harvest and sowing. Additionally, agricultural crops are particularly vulnerable to natural calamities—droughts, floods, and fire—that can have a large impact on household income. To supplement their livelihoods, individuals often engage in seasonal migration.

The true extent of internal migration within India is unknown. Official estimates of migration seem deceptively low. The 2001 Indian Census suggests that less than 17% of men live in a location different from their place of birth<sup>1</sup>. However, these surveys often fail to capture the short migrant spells that are typical for households engaged in agriculture. Moreover, many migrants still consider their village of birth their home, even if they spend most of the year in another location. More detailed village case studies hint that migration is much more prevalent than the official statistics show.

To better understand the extent of migration and the particular challenges faced by migrant workers, the Centre for Micro Finance conducted two case studies in Jharkhand/Bihar and Orissa in July 2006. The case study in Jharkhand and Bihar was conducted with the support of Ajivika Bureau, a MFI operating in these states. Working with Ajivika staff, CMF interviewed 21 households with at least one migrant member in Deoghar district. CMF also interviewed 16 men who had recently returned from working in another location and 11 families which did not yet engage in migration. The case study in Orissa was conducted with the support of Adhikar, a registered society headquartered in Bhubaneswar that has been working in the areas of legal literacy, workers' rights, micro-finance, and the social sector for the last 10 years. CMF conducted 10 in-depth qualitative

surveys across 10 villages where Adhikar is active. All families in the survey were chosen because they sent migrants to Gujarat and used Adhikar's financial services. Three families who had not yet engaged in migration were also interviewed.

In addition to compiling demographic profiles of migrant families, the survey team asked detailed questions about the reasons why members of their family did or did not engage in migration. Finally, the surveys discussed with households what financial services were available to them, and what additional financial services they required.

**The Migrant Situation:** In the areas covered by the case study, seasonal migration was high. Take, for example, Deoghar district of Jharkhand. With few irrigation facilities, agricultural output is weak. As no major industries operate in the area, families have to rely on local tourism for employment. However, the tourist season lasts only a month, and can employ a few members of the family. As a result, survey respondents claimed that about 95% of the men in the villages had migrated for work at one point.

Exact reasons for migration varied. One household described how a drought left crops destroyed; they were forced to sell an asset and a family member undertook a four-month migration spell to Mumbai. Another household's house was destroyed in the monsoon, and they needed money to rebuild it.

Migrants typically traveled to a wide range of locations, including Mumbai, Durgapur, Kolkata, and Delhi. They were employed in welding, carpentry, and shoe factories. Payments were often irregular, with daily payments around Rs. 60–120 per day. Migrants working in agricultural jobs earned around Rs. 30 per day.

A similar situation exists in rural Orissa. The average landholding is less than one acre, and few have access to irrigation. While the central and state governments have introduced employment schemes, wages tend to be much lower than what an individual can earn in other states like Gujarat. Common occupations for migrants

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Shawn Cole is a professor at Harvard Business School interested in corporate finance and banking in developing countries. Rema Hanna is a professor at New York University. Her work focuses on the provision and the impact of public services to the poor in South East Asia (mostly focusing on India). Petia Topalova is an economist in the research department at the IMF. Her research interests include trade and development, financial services, and development in South Asia. [Pg. 1](#)

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Dr Linda Mayoux has worked on gender and microfinance since 1997 for donor agencies and microfinance NGOs in South Asia, Latin America and Africa. Her current focus is on developing an effective cost-efficient participatory action learning methodology on gender and livelihoods which can be integrated into NGO and MFI group methodologies for empowerment. [Pg. 3](#)

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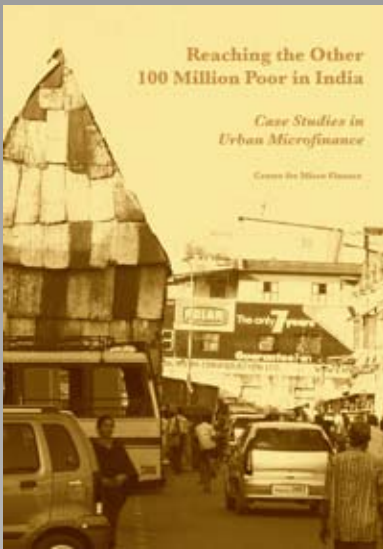
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*By Rachel Bergenfield*

Rachel was an intern at the CMF this summer. She is currently an international relations student at Tufts University.

<sup>1</sup> Statistics from the National Sample Survey indicate an even lower incidence of migration.

## The Urban Market Potential



Though nearly 30% of the Indian population lives in urban areas, only 5% of all microcredit in India goes to the urban poor<sup>1</sup>. However, the potential of urban microfinance is huge; the urban population is expected to increase to 50% of the total population by 2030. The Centre for Micro Finance conducted several case studies on urban MFIs. The case studies revealed that the urban market poses different demands and challenges compared to the rural sector, which probably contributes to the sectors' slower growth.

One of the main challenges to urban microfinance is the more transient nature of the urban poor population. This is a problem in group-lending models in which, essentially, friendship and community membership substitute collateral, while knowledge of the community substitutes for a formal credit rating system.

Women in a self-help or Grameen-model group in a small rural village have probably known each other for years, sharing a culture and community. They may spend much of their days together as they are homemakers or employed out of their homes. Since group members share liability to the bank or the MFI and have to, in some way, pay for group members who default on their loans, the entire group suffers if one member does not repay. A defaulter lets down her friends and tarnishes her reputation, putting her "collateral" at risk. Furthermore, many microfinance practitioners consider this social pressure to be one of the strongest mechanisms for encouraging repayment. The group also decides who will be admitted into the groups to receive loans by using their intimate knowledge of each other, collected over lifetimes of living in a close community together.

Since urban communities tend to have a more transient population than rural villages have, there is usually less homogeneity of culture in ur-

include weaving in textile mills, welding, and porters in railway stations. Many chose a location to migrate based on information from relatives who had migrated before. Similar to the migrants from Deoghar, they were paid irregularly and salaries depended on the type of work done. For many families, remittances were the principal source of income.

**Migration and Banking:** A lack of access to financial services remains a key difficulty for migration in India. Formal banking channels are largely inaccessible to the migrant population. Some lack the official identification required by formal banking institutions. Others are unable to maintain account minimums. As such, migrants often have no access to credit and to secure and affordable remittances services.

**Access to Credit:** Access to credit is essential to migrate. There are large up-front costs of migration, such as train tickets and set-up costs in the new location. In Jharkhand, the up-front costs of migration varied by location: roughly Rs. 1,100 for Mumbai, Rs. 500 for Kolkata, and Rs. 50 for in-state cities. From Orissa, all migrants went to Gujarat, and paid Rs. 500-800. Seven out of nine families stated that they took loans from moneylenders, shopkeepers, or relatives to finance the trip; the remaining two financed it from savings.

Without access to credit, those who could profitably find employment in other regions do not migrate, or do not migrate to locations that, while further away, would give the highest returns. Even though poverty is a major push factor for migration, the substantial up-front costs and lack of credit (or credit at excessively high interest rates) may immobilize those who would benefit the most from migration—the poor and landless.

**Remittances:** Cheap and fast remittance services are often unavailable in rural areas. In Jharkhand, one household used informal systems (the hawala system), which only took one day, and cost about 5% of the transfer. Most other households used the post office. One household claimed that a money order from Kolkata took between 15 and 20 days, and that the postman typically took a cut of Rs. 15-20. From Delhi, others claimed that it took 8 days to 1 month, and that the postman took Rs. 10-20 for every Rs. 1,000.

Both the hawala and the postal system are not necessarily safe. Informal systems may, for example, be vulnerable to crime. One household sent money back with a relative, who ended up getting pick-pocketed. A substantial amount of money, Rs. 4,000, was lost. It is hard to find money that gets lost in the post office system

as well. One household described how a money order never reached the family. After a complaint was filed, it took almost four months and Rs. 300 to track down the money.

The lack of remittance services may have important consequences for migration. First, families may choose shorter migration spells, thus limiting their choice of jobs. Second, households are at the whim of the post office, which has a virtual monopoly of the market and has been known for delays and corruption. The delays are especially problematic in case of emergencies, for example when illness strikes and money is needed for the doctor.

**Innovative Financial Services for Migrants:** Due to the growing need for financial services for migrants, Adhikar set up an innovative remittance system between Orissa and Gujarat, the most common destination of migrants from Orissa. As part of its case study, CMF conducted a process evaluation of their program. Adhikar's program, "Shramik Sahajog," started in Gandhidham, Gujarat in September 2002, and was expanded to Surat in January 2004.

Remittances are collected at the destination office. Details of remittances made are emailed to the Orissa office every Monday, Wednesday, and Friday. Money is then delivered to the door of the migrant's family within three days. The service costs 3% of the amount transferred plus an additional Rs.10 for doorstep delivery.

The program also encourages savings. Clients are required to deposit a minimum of Rs.100 per month, against which they earn 6% monthly interest and are issued a passbook with their photograph for the said savings account. They are eligible to get a loan against the balance in the savings account (at a 2% interest rate) and can withdraw money when needed (for example, for the up-front costs of a new migration spell). Every client has a unique code. The clients who do not deposit under the program are eligible to remit money, but they can not get loans and they do not have a code number. Service charges are the same for both clients. The families studied in the Orissa case study used this service and reported a high degree of satisfaction.

**Next Steps:** The case studies illustrated a need to understand and systematically document the banking needs of seasonal migrants. Moreover, we still have very little understanding of the impacts of the remittances programs on the lives of the rural poor: How does access to a cheap remittances program affect migration spells and employment choices? How does it aid families when an emergency (crop failure, illness) strikes? As such, CMF plans to work on better

1 Iyer, Preeti R. "Banks Get Penny Wise." Times News Network. 31 May 2006.



understanding the basic needs of migrants, and the impact of improving financial services on the livelihoods of the rural poor.

## *Sustainable Microfinance for Women's Empowerment*

*Report on International Mutual Learning Workshop hosted by CMF, Chennai, funded by Levi Strauss Foundation, September 2006*

**Background to the Workshop:** Microfinance programs not only give women and men access to savings and credit, but reach millions of people worldwide by bringing them together regularly in organised groups. These programs can contribute significantly to gender equality and women's empowerment. Microfinance programs contribute to women's ability to earn an income, initiating a series of 'virtuous spirals' of economic empowerment, increased well-being for women and their families, and wider social and political empowerment.

Microfinance services and groups involving men also have potential to question and significantly change men's attitudes and behaviours as an essential component of achieving gender equality. Gender equality and women's empowerment in turn are integral components of pro-poor development and civil society strengthening.

However, donor funding for microfinance has generally been conditional on compliance with some variant of CGAP's Guidelines for Best Practice aiming at short term financial sustainability. Although financial sustainability is desirable in order to enable access to financial services on a sufficient scale to meet demand, these programs can only be part of a solution to poverty reduction and empowerment.

Despite some successes, evidence indicates that even in financially sustainable programs, benefits for women cannot be assumed. To the contrary, many programs report decreases in their ability to ensure that women benefit following introduction of policies to increase financial sustainability. Women's empowerment is not addressed even in the new poverty agenda for inclusive microfinance. Moreover funding for programs which place prime emphasis on women's empowerment continues to decrease.

The evidence to date shows that if microfinance programs are to make significant contributions to pro-poor development and civil society strengthening, they need to develop explicit gender strategies to address the needs of women. These gender strategies need to look beyond just increasing women's access to savings and credit, and to organising self-help groups to look strategically at how gender equality and women's empowerment can be promoted.

Moreover the focus should be on developing a diversified microfinance sector where different types of organisations—NGOs, MFIs, and formal sector banks—all have gender policies adapted to (1) the needs of their particular target groups, and (2) their institutional role and capacities. These types of organizations must all work collaboratively as part of an inclusive financial sector in order to make significant contributions to gender equality and pro-poor development.

**Current Innovations:** The workshop brought together participants from India, Nepal, Uganda, Sudan, Mexico, and Peru involved in innovative programs and research. Participants identified many innovations which could be implemented by different types of microfinance providers to increase contribution to empowerment.

First, programs have been introducing a range of savings, loan, insurance, pension, and remittance products. A common feature was prior participatory market research with clients and a commitment to prioritize their interests as an essential contribution to long term financial sustainability as well as empowerment: 'unsustainable clients mean unsustainable institutions'.

Second, programs have been developing non-financial services to increase the benefits of the microfinance. Cost-effective delivery mechanisms included: participatory learning processes among clients; integration with microfinance delivery; separately-funded initiatives; and collaboration with specialist service providers and people's movements.

Third, programs were innovative in building on women's groups for wider change at the household, community, and national levels. This went beyond federations of SHGs for savings and credit to supporting women's collective organization and action on a range of issues. Some programs were developing participatory methods like Participatory Action Learning Systems (PALS) and Internal Learning Systems (ILS) to facilitate networking, planning and tracking. Others were developing self-sustaining and self-managed information centers as a resource for collective learning and action.

Finally, discussion focused on the organizational implications: effective program information systems are needed to track and understand contribution to empowerment, staff gender policies, and participatory management structures. These can range from participatory market research in banks to full control over decision-making in federations and cooperatives.

Underlying all these was the need for 'gender equality and empowerment to become part of the DNA of the organization, promoted in its advertising and promotional activities and through-out interactions with clients and members.

**Next Steps:** It was also clear that there is a need for an ongoing process to promote women's empowerment as a central issue in microfinance involving:

- » A forum for ongoing exchange of experience and innovation between practitioners.
- » Gender training integrated into the Microcredit Summit campaigns at international and regional levels to raise awareness.
- » Engagement with 'malestream' microfinance debates to promote questioning of 'bad practice'.
- » Lobbying donors for sufficient funding

ban communities. Because of this feature, the urban population may also exhibit less of a feeling of community. In such a setting, friendship and community membership are not sufficient substitutes for collateral, as group members probably have less loyalty to the group. Even when there is a strong feeling of community, many urban women do not work only out of their homes, but they instead might work as maids or factory workers. This would prevent them from having the same degree of knowledge of their friends and community members as most rural women do. Without that level of involvement in each other's lives, the women's knowledge of each other may be an insufficient substitute for a credit rating system used to create groups. Furthermore, in transient populations, women may not live together for long enough periods of time to have adequate information on other community members. Even if all of these conditions were somehow met, urban women may also have less time for group meetings than rural women do as a larger number of them work outside of their homes.

The group-lending model is clearly less appropriate in the urban market than it is in the rural market. Given the characteristics of the population—its transient nature and the greater likelihood of women having employment that is not based out of their homes—the need for individual lending may arise very quickly in urban markets. Traditionally, the problem with individual lending is that there is no way to judge the borrower's risk (unless one is a "graduated" group borrower). As this may be the case in the urban market anyway, a credit bureau is needed. Recently, Nachiket Mor, Deputy Managing Director of ICICI Bank told the *Economic Times* that, in terms of building the urban microfinance sector, "the first step would involve entailing a uniform identification number with a national identity card," which should lead to the creation of a credit bureau. Bad borrowers would be easily identified as in the formal banking sector, and microfinance could grow more rapidly in urban areas where the group-lending model seems to meet varied success. It would also be feasible for MFIs across the sector to offer individual loans, allowing the best borrowers not to be held back by their groups, which happens when receiving smaller loans and waiting longer periods of time for the loans than is desirable. A credit bureau would also benefit the rural market. Even in a rural setting where a woman has known a friend for years, she may not have the relevant information to accurately judge how likely her friend is to repay a loan or how responsible of a saver her friend is. The benefits outside of the sector would be tremendous as well. Establishing a credit bureau should be a top priority and seen as an opportunity to strengthen the sector.

The urban poor are also different from the rural poor in their financial needs. There are more sala-



for development and implementation of effective empowerment strategies.

- » Bringing together different players in the sector to develop coherent policies and for gender advocacy.

The current point in time is favourable for bringing together elements of "Best Gender" and "Empowerment Practice" strategies for different types of institutions. On the one hand, as the workshop demonstrated, there is now more experience and awareness of the issues and possible strategies. On the other hand, the earlier somewhat dogmatic promotion of "one-size-fits-all" financial sustainability is now being convincingly challenged in relation to poverty targeting—a major theme at the Microcredit Summit in Halifax in November. This will provide a key opening for now paying more attention to gender issues—the second official goal of the campaign being not only 'reaching' but also 'empowering' women.

For more information, please:

- » visit [www.genfinance.info](http://www.genfinance.info)
- » join the genfinance Yahoo Discussion group: <http://finance.groups.yahoo.com/group/genfinance/>
- » contact the author, Dr. Linda Mayoux: [L.mayoux@ntlworld.com](mailto:L.mayoux@ntlworld.com)
- » review examples of "Innovations for Empowerment" online at <http://ifmr.ac.in/cmfi/newsletter>

## Transforming MFIs into Local Financial Institutions

The microfinance sector in India is growing rapidly with new generation Micro Finance Institutions (MFIs) and commercial banks driving that force. Innovation in terms of product designs,

channel configurations, and technology usage is now rife in the Indian microfinance sector. However, to quote Muhammad Yunus, founder of Grameen Bank in Bangladesh and winner of the 2006 Nobel Peace Prize, "India has a long way to go in micro-financing. The microcredit movement is still in its infancy in India"<sup>2</sup>. Given this stage of transformation in Indian microfinance, the question, then, is how can Indian MFIs grow to achieve universal access to financial services for all people in the most efficient manner?

MFIs have two broad strategic options to choose from while aiming to scale up their operations. The first option is to expand geographically while financing the same segment of the population with the same products. This practice is followed by most MFIs in India today. For example, we now see a number of MFIs with a presence in more than two states. The institutions that follow such a strategy do so to leverage their core capabilities, gained from past experience, to replicate the same model across the country.

While such a strategy of "doing what you're good at" ensures rapid expansion without taking too much risk, it is not necessarily the most efficient way to fulfill the overall vision of the sector—that of providing access to financial services for those who do not have access to formal channels. The tradeoff between a pan-India presence and being able to provide a full gamut of financial services that are customized to the needs of each client is high. One of the major challenges with such a horizontal approach is that the MFI risks losing its 'local' character. This local character is significant in client screening, analyzing micro-enterprises that are context-specific, choosing neighbourhoods for expansion, and selecting staff. The

<sup>2</sup> "Micro financing has a long way to go," *The Economic Times*, 17 October 2006.

other disadvantage is that given the way in which MFIs work, they incur a lot of fixed costs (cost of branch and overheads) in order to serve clients in an area. A strategy of serving a fraction of 'eligible clients' within the MFI's area of operations and a fraction of 'eligible needs' of existing clients might be expensive given that these costs will have to be incurred for every round of expansion.

The second option, therefore, is for MFIs to expand vertically and to offer a comprehensive suite of financial services (credit, savings, insurance, remittances, derivatives, and investments) and serve all credit constrained segments within a limited geography while partnering with specialist agencies to improve local economic activity and productivity. Rather than opt for a large geographic presence across the country, whereby they offer a thin blanket of plain-vanilla credit, MFIs could seek to leverage their local presence to increase their economies of scale and support the growth of the local economy. This means that MFIs would also finance a new class of clients with slightly higher incomes who require higher loan amounts and who likewise do not have access to formal channels to obtain financial services. This would also allow graduated customers to remain with the MFI and continue to benefit from its services rather than leave. Distributing larger loan amounts doesn't necessarily imply mission drift. By distributing larger loan amounts MFIs can leverage significant economies of scale and therefore reduce their overall interest rate which would also benefit poorer customers who borrow smaller amounts. MFIs in Bolivia put this theory into practice, and as they started distributing larger loan amounts through individual lending programmes, the microfinance sector experienced an overall reduction in interest rates from 60% in the early 1990s to around 17% today. We also see that the number of clients with loans smaller than \$500 increased by more than 900% as interest rates declined.<sup>3</sup>

Financing opportunities could also result from creating backward and forward market linkages for the enterprises MFIs' clients invest in. The benefit for the MFIs is to meet its social agenda by ensuring a sustainable livelihood to its client and also to improve its business by cross-selling new products and reducing default risk. There exist several 'missing markets' for livelihood support at a local level that conceptually seem to have strategic significance for MFIs. A microfinance program with a reasonable scale (100,000 members and above) and

that has completed 3-4 loan cycles is in a position to contemplate transformation into a Local Financial Institution (LFI). This is because it has a keen sense of the livelihoods (including constraints to growth) that are locally relevant based on observable loan usage data. This is a powerful signaling device to understand where clients think their expertise lies.

Missing markets exist in agricultural productivity, fruit and vegetable storage and processing, infrastructure, and so on. Serving these markets might entail financing not just the primary producer/entrepreneur (who currently is the typical microfinance client), but also other credit-constrained entities in the value chain (for example, the local processing unit, the warehouse owner, or the wholesaler). By intervening in these markets principally as a financier, not only can the MFI stay geographically focused, but it can also start adding value directly to the livelihood of the primary producer/entrepreneur and support the growth of the local economy.

## Envisioning the Future of Microfinance: An Interview with Mrs. Vinatha Reddy

Since 1996, Ms. Vinatha Reddy has been focused on micro-credit, studying the Grameen Bank model. After several years of studying the model, she submitted a pilot-phase project proposal to the Grameen Trust. The proposal was accepted for seed capital funding and led to the inception of Grameen Koota in 1999. Today, Mrs. Reddy, CEO of Grameen Koota, continues to work towards making Grameen Koota financially sustainable and ensuring a measurable impact on the poorest sections of society.

**Q:** Over the past few years, the increased number of new institutions and interest from a broad array of investors in the sector signals growth as well as greater competition. What is the microfinance scene in Karnataka today?

**A:** *Within Karnataka, when Grameen Koota first started [1999], very few players were there. But slowly many other players have entered the state, which is a very good sign since more of those at the 'bottom of the pyramid' can be reached by institutions offering credit. But the situation is not as saturated as in Andhra Pradesh. There remains room for many players in Karnataka—many other MFIs, many other models. A lot of things can still happen in Karnataka.*

**Q:** What is your reaction to the Andhra Pradesh crisis that occurred earlier this year?

**A:** *Well, the Andhra crisis really made all of us sit up. Even now, the complete picture has not emerged describing what really happened and why. But from what has been published... there was too much of oversaturation and lots of dual memberships. It [the crisis] was definitely more supply-driven after the overlapping [by MFIs]. So there is a lot to be learned from the crisis, if we can get the total picture.*

**Q:** What kind of information do you think hasn't surfaced clearly? Are there particular aspects you are keen to know about? The debate has centered largely around interest rates, for example.

**A:** *I think even more than interest rates, the real issue there was the competition between the government MFI program and the private MFIs.*

**Q:** In terms of regulation, do you see the responsibility falling on the state government or the RBI itself? What are the implications of the Andhra state's move for Karnataka?

**A:** *I think it's a lesson for everyone—for MFIs also. We need to be enacting better governance and be more conscious of the work of the state governments so that we can work in coordination with them. The state governments also have to understand the MFI sector. And the regulator also has to play its role. Within Karnataka, for example, what happened to us in Davangere district—the lack of awareness among government officials that the MFI sector exists—that was the crucial thing that tipped against us<sup>4</sup>. They [state officials] didn't know that private MFIs existed and even that banks were lending to NGOs for on-lending to SHGs. The awareness must be created by the regulators also, among state officials, and not just by MFIs themselves. The whole sector needs to become more aware.*

**Q:** You have been with Grameen Koota since its inception. During these years, a lot has changed in the microfinance scene. How has Grameen Koota evolved over the past seven years? Have its vision and values changed?

**A:** *We revisited our vision last year. We started off very idealistically, thinking that Grameen Koota needs to be owned by members and run*

<sup>3</sup> A study by C. G. Vega and M. V. Vega yet to be published in *Trimestre Economico*.

<sup>4</sup> In August 2006, Grameen Koota's was falsely accused of not operating legally by an SHG coordinator at Davangere, who put forth statements in a widely read Kannada newspaper. Based on these allegations, an enquiry was conducted by the deputy commissioner and GK's branch staff were arrested. The RBI's State Level Microfinance Coordination Committee intervened, putting these false allegations to rest. The matter was resolved and branch staff was released on bail. Despite all this, weekly SHG meetings functioned normally.

ried employees amongst the urban poor than the rural poor. Traditionally, microcredit has been for businesses purposes for self-employed women. This excludes poor, salaried women who might still need a supplement to their meager income to make housing repairs, send children to school, or even to get vocational training. More flexible loan products are needed. This would require a serious restructuring of financial products and marketing strategies for many MFIs.

Some progressive MFIs have introduced loan products with this greatly needed flexibility in order to better suit the urban environment. Ujjivan, a new MFI targeting the poor in Bangalore slums—and one of the MFIs that CMF conducted a case study on—offers a loan specifically for families needs. This is an important product for salaried clients, as it can be used for needs such as education, weddings, or for paying existing debt to money lenders. The MFI also offers a business loan; but, noting the difference of type of employment in urban areas, this loan can be used for more indirect business purposes such as vocational training after just two loan cycles. Ujjivan's unique products and structuring according to the specific needs of the urban poor has attracted international support from the Michael and Susan Dell Foundation and Unitus Enterprise Limited.

Hopefully, the needs of the urban poor will provide the extra incentive to improve the sector as a whole. The creation of a credit bureau, greater flexibility in loan products, according to the needs of the clients, would benefit investors, practitioners and borrowers.

**Reaching the Other 100 Million Poor in India: Case Studies in Urban Microfinance**

is a series of case studies conducted by the CMF with six prominent MFIs operating in urban areas. The studies sought to identify innovative practices among these institutions, examine the array of financial services offered to the urban poor, and discuss the challenges and opportunities that remain in urban microfinance. They provide an in-depth look at each MFI and at how these MFIs 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, and CARE India for publishing these case studies.

Visit <http://ifmr.ac.in/cmfp/publications/> for this and other CMF publications.

by members to be used by members. Over the last year and a half though, we decided that this idea of ownership by members wasn't as important as the need to bring the financial services that are there at the 'top of the pyramid' to the households at the 'bottom of the pyramid.'

**Q:** So Grameen Koota remains very client-driven, but no longer focused on the idea of members having ownership in the institution?

**A:** We feel that it is important that whatever is available in the mainstream, whether it is insurance products, pension products, or savings products, all those need to be drawn down to the poor. Still, our vision remains the same: we want to target women from poor households, in a sustainable and continuous manner.

**Q:** How have your clients' needs changed?

**A:** Well, definitely clients are more focused and seem more empowered now, compared to the time when they joined with us. Even after one or two loan cycles, you can see that clients are becoming bolder and asking for more products, ranging from insurance to savings to larger loans for housing and education. Unfortunately, we have not been able to fulfill all of their demands yet. Naturally, we can't—we have to go step-by-step and take advantage of technology to offer multiple products and services. Eventually, we would like offer all these products. Given our huge network and presence, we are there—every week, in every village—and we need to have more products and services that we can offer in the villages.

**Q:** What kind of value do you see in having your initial loan product, the Income Generating Loan, being used only for entrepreneurial or productive use?

**A:** For the first three years, we require that our clients use loans only for productive purposes, which can range from small businesses to animal husbandry, so that clients can increase their incomes by investing credit and also create assets for themselves and families.

For consumption purposes, we have an Emergency Loan product which is very popular since it can be used for food, health, education, and a whole variety of needs. I am sure that if we did not have this loan, our clients would still have to go to moneylenders.

This loan is not geared as a supplement to the Income Generating Loan. We have a separate, mid-term product, known as a Supplemental Loan, which was requested by our clients. The

loan can be used to enhance a business started by the client that has been doing well, or to restart a business that may have failed initially.

We feel that it is important that whatever is available in the mainstream, whether it is insurance products, pension products, or savings products, all those need to be drawn down to the poor.

Our clients also have the option of not taking out the Income Generating Loan in the full initial amount of Rs. 7,000. For example, if a woman just wants a Rs. 2,000 loan, if that amount is most manageable for her, she can take out that amount only, and take out an emergency loan six months later.

**Q:** How do you envision your clients graduating to the mainstream financial sector or will Grameen Koota itself evolve and grow with its clients? What kind of training is Grameen Koota imparting to clients?

**A:** We see Grameen Koota evolving with our clients. For example, we will soon begin piloting individual loans for our star borrowers. Many of our clients are already running their own businesses with solid repayment records, and now they are in a position to absorb and repay larger loan amounts—these are our star borrowers.

We don't anticipate doing business training ourselves, but instead linking clients with other organizations that are more specialized.

**Q:** How has Grameen Koota handled the increase in competition and has there been any notable change in operations?

**A:** Like I mentioned earlier, we are not facing competition to a large extent. In some of our branches, we have other MFIs making a presence. One example I can remember is with BSS. In one of our branch areas, to distinguish between our members and their members, we actually gave our members identity plaques that they put up in front of their houses. Each said "Grameen Koota member" so up to a certain extent, this did work in distinguishing between clients. But we have not been able to replicate this across branches since it is expensive. But we continue to talk with our clients about not borrowing more than they can repay—from Grameen Koota and from all sources. This is even included in our Grameen Koota member pledge, which now includes a line that 'we will not borrow more than we can repay and burden our families.'

These conversations were part of a financial education program that we conducted. In the future, we want to do a full financial education training course so that clients can understand how to manage debt better and the importance

of saving according to life-cycle needs, for example. I have seen SEWA's financial literacy module, and I feel that doing this for clients is very important, particularly in a competitive environment, so that they are financially educated.

**Q:** Grameen Koota currently conducts socio-economic development (SED) workshops on topics ranging from nutrition to business development. What could be the relative merits?

**A:** These workshops usually take place once every four months in some branches.... We also offer a SED specifically for the husbands of our clients, which is conducted on the one year anniversary of the branch opening. We cover a range of topics. Most recently, we had a doctor from a local government hospital give a workshop on Chikungunya and Dengue Fever. She also spoke about how women can get themselves insured under the government's health insurance scheme. In other workshops, we have invited government veterinary doctors that talk about how women can safeguard their livestock against disease. The SEDs are an important platform for discussions, and we also encourage NGOs to visit and do workshops. We had tied up with a local NGO in Kanakapura that works on a lot of women's health issues. Kanakapura is one of the sub-districts with the highest rate of cervical cancer. These modules on health were well-received by our clients.

With our own workshops, we will definitely focus more on financial education, as well as other important topics, such as the Right to Information Act and how women need to become more active in the panchayats. The Right to Information Act that the government has come out with says that any citizen can write to an official to get information that they want and it is mandatory that they receive the requested information. For example, we often see that a road maybe be sanctioned in a village. Without this information being properly disseminated, a contractor can claim that the work was done and even get his cheques from the government, when the project may not have even started.... This Act allows citizens greater accountability by having access to this kind of information.

**Q:** What are Grameen Koota's motivations for offering insurance products, including cattle insurance?

**A:** Cattle insurance is something we do offer for our members, but it has not taken off just yet. We think more aggressive marketing efforts will need to be done. As of now, it is not mandatory

for clients involved in animal husbandry since the upfront cost is a little bit high. By offering the option to make premium payments in installments, however, we think that more clients will take up this product.

**Q:** Grameen Koota has recently started operations in urban slums. Can you talk about the extent of urban operations now and how you see urban microfinance taking off?

**A:** Well, statistics show that urban poverty is growing at a faster rate than rural poverty. In the districts across Karnataka, we work in both urban and rural areas, often beginning operations in the slums within district headquarters and then covering surrounding villages.

I think that urban microfinance is definitely taking off with many new players, such as Janalakshmi, Ujjivan, and Sanghamithra who are all working in urban Karnataka. We remain focused on delivering services to the poor who really need these services, particularly as a safeguard, in both urban and rural areas. Still, Grameen Koota works primarily in villages.

We see Grameen Koota evolving with our clients. For example, we will soon begin piloting individual loans for our star borrowers. Many of our clients are already running their own businesses with solid repayment records, and now they are in a position to absorb and repay larger loan amounts....

One noticeable problem is that in urban areas, because of greater concentration, there is more negative publicity spread by moneylenders and mafia types against our organization. This also takes place in villages though.

**Q:** What are some of the gaps in microfinance research or some research questions you think should be addressed?

**A:** I think a lot of research remains to be done—and not only done, but disseminated. That is what is currently lacking. It is not enough that CMF does research; findings must become accessible to the public.

It is also important for researchers to have dialogues with policymakers. For example, with the telecom industry, the reason why telephones are so inexpensive and readily available is because of the deregulation that took place. The research on this sector took place in universities that were able to talk with governments and policy makers. The result is that a huge population segment has benefited from these research findings. In the same way, CMF research needs to find a way to establish a link with politicians and policy makers and reach a wide audience. A debate and discussions must ensue research.

**Q:** How do you think the microfinance sector

will be affected by the decision to award the 2006 Nobel Peace Prize to Muhammad Yunus and the Grameen Bank?

**A:** Everyday we are seeing articles about microcredit and microfinance. For us especially, at Grameen Koota—because we are a Grameen replicator—we have been able to talk about this development with the district collector in Davangere, for example. The fact that our mentor and our benefactor has won the Nobel Prize has been very good for the sector, particularly following a bad year for us [the sector as a whole] with the Andhra crisis, Karnataka crisis, and so on. This positive visibility is good.

**Q:** What do you think the impact will be of this visibility? Do you see this as helping to alleviate some of these misunderstandings?

**A:** The awareness is also developing among government officials since most of them were previously only aware of the SHG-bank linkage program. Now people will know of a sector called the microfinance sector—and that it is legitimate—since the person most closely associated with this sector has won the Nobel Prize. It is a very positive development.

**Q:** Are there any other topics you would like to discuss?

**A:** I think it is very important for CMF research to also focus on savings. The most important message for clients is that they need to save for life-cycle needs. With our clients, we find them coming to us saying that since we are not able to accept savings—Grameen Koota is a registered trust—then where can they go? They still keep their savings under the pillow, which is very troublesome. I am not speaking only for Grameen Koota though—the sector, in general, must promote this message. We need rock-solid organizations that take advantage of the power of technology to securely accept clients' savings since so many remain without a safety net of any kind.

## Working Papers:

- » Reputation and Communication in Microfinance: An Exploratory Study in Orissa, India.
- » Sharpening the Debate: Assessing the Key Constraints in Indian Micro Credit Regulation
- » Transaction Costs in Group Micro Credit in India

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