



Dow Industrials



“An NGO in Transition – The New Face of Microfinance in Africa” An Exclusive First Person Interview with Mr. Kevin Clawson

Blue Orchard Beats Blue Chips

Institutional Credit And Rural Poor

PPP for rural youth entrepreneurs

Microfinance East Conference

Systematic Product Development

Reflection

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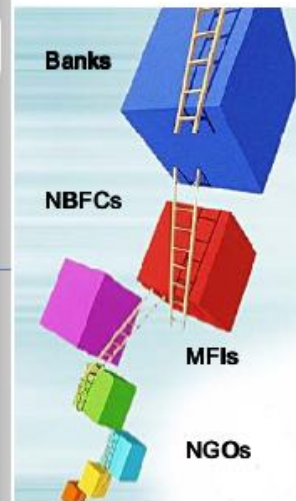
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Overcome the Challenge

Global meltdown has created both challenge and opportunity for micro financing institutions. The challenge is how to mobilize funds due to present worldwide liquidity crisis and loss of confidence of general public and institutions in financial institutions and financial markets. The opportunity is how to make millions of disadvantaged rural poor who are poor not by choice or even not due to laziness but just because they belong to rural areas where no opportunity exist to become educated entrepreneur or even efficient and enlightened farmer or artisan. For centuries these people have been hoodwinked by politicians and money lenders. But of late many institutional models have been developed over the years to transform rural society a vibrant economic society. Micro – financing institutions are one such successful model.

Micro financing institutions however have been able to overcome the challenge of fund crunch to a large extent due to confidence it could earn by having almost nil non-performing assets. It has been rightly said by Udaia Kumar, M.D. of SHARE MICROFIN LTD., that there is a realization that MFIs are a better place to invest in, in the context of the economic slow-down. In fact many venture capitalists in USA are evincing keen interest on investments in these institutions for obvious reasons. However it has been rightly observed by JACQUES ATTALI, the founder of PLANET FINANCE of FRANCE, that ‘future is so uncertain that one does not know when and where it happens’. It is therefore a challenge for MFIs to maintain its well earned confidence of public and market and continue having constant flow of fund from all quarters.

Similarly MFIs should seize the opportunity to generate employment opportunities and build entrepreneurs in rural and semi urban areas by funding rural youth in large number and help them to undertake modern farming and also small business units with upgraded technology and expertise. However to achieve this these institutions have to relook their present business model and adopt a more comprehensive model that can take care of education, technology up -gradation, both in production and marketing of small business units and farms. Indeed this is not a easy task but the dedication and social service that are generally imbued in MFIs over the years for their success may help them to take full advantage of this opportunity as people all around looking for someone to hold their hands to confront the crisis as a man with shoulder and head held high.

In view of the above it has been decided to make MICRO FINANCE FOCUS more focused to help MFIs to cater knowledge, experience, innovative models of delivery with least cost and maximum efficiency, build new class of entrepreneurs by funding and education and business of rural youth and also helping them to become better employable by funding rural institutions and providing them management support as far as feasible. Accordingly it has been decided that MICRO FINANCE FOCUS will have separate columns/ sections to focus success stories, strategy models, and sources of funds, and many more in-depth articles. It would provide opportunity to MFIs to advertise their performance and demands of funds or management executive. Obviously some of these services will be charged nominal for obvious reasons. The last but not the least it is making itself global both in inputs as well as in reach. I hope readers would welcome this with both hands and provide their feedbacks to help us to grow faster and better.

Vikash Kumar

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“MFIs should seize the opportunity to generate employment opportunities and build entrepreneurs in rural and semi urban areas by funding rural youth in large number and help them to undertake modern farming and also small business units with upgraded technology and expertise.”



Chance to redesign the system

Here in the US the credit crisis seems to be deepening. Major Banks and all of the US Auto manufacturers are desperately seeking subsidies from the government. An objective observer may find this curious, but in America there is a strong cultural bias against mixing government and commercial (farm subsidies notwithstanding) The press is full of editorial objections.

Dr. Ghosal's insightful article on The Global Financial Crisis places the MFI in perspective and his statement that, "...currency crisis have little relevance to substance economies." While economies flounder in the, so called developed world. Garrett Wyse's short piece, "Blue Orchard, vs. Blue Chip," shows how developing world businesses are financially outperforming major market stocks. Indeed, I co-authored a paper on the subject of these new realities with Mr. Wyse in the December issue of The Microfinance Focus Magazine. In this piece we anticipated improvement in developing markets as potential investments.

Certainly it seems too early to know what the long term implications will be for Microfinance and Sustainable Development. One thing seems clear. The world will be a different place in 2010. We all have a chance to reinvent ourselves, to redesign the system. As Peter Drucker, the management expert said in a recent book, "... if you want to know the future, participate in its design.

- Jerome Peloquin

"The world will be a different place in 2010. We all have a chance to reinvent ourselves, to redesign the system."



Write to the editor : managingeditor_us@microfinancefocus.com

Blue Orchard Beats Blue Chips

By, Garrett Wyse

Editor's Note: *Garrett Wyse co-authored a feature story in the December issue of Microfinance Focus Magazine titled: Microfinance & Philanthropy, the New Realities. The author's (Garrett Wyse and Jerome Peloquin) predicted that, as a result of the financial crisis, an investment in a developing country would be more secure and more profitable than a traditional "blue chip," stock. In this follow up piece, "Blue Orchard Beats Blue Chips" Mr. Wyse demonstrates proof positive of his predictions.*

The report for the fund's performance dropped into my mail box on Jan 13th. With all the news in the media about various funds performance, the meltdown of various financial instruments markets and the imminent recession in most of the world, I was far from confident about my portfolios performance. Shares I had bought a number of years back had been performing exactly according to the funds predictions for the past five years, the length of time I have had the shares. Well to be perfectly honest I only have one share, in a microfinance investment fund called Blue Orchard (even this was in a bit of trouble as the fund is managed on a day to day basis by Dexia the EU bank backed by two governments and with a strong pedigree in banking. Alas they were also feeling the pinch, the government had to help prop up the bank, but my fund within the bank was solid, so there was the chance that the contagion from the toxic debts may overwhelm my fund also. Which would have been a double tragedy, because the ultimate people responsible for paying into my fund and keeping its price up are none other than the poorest people in the world).

My money is invested in 99 MFI's in 30 countries from Argentina to Cameroon and Cambodia to Ukraine, and just about everywhere in between. Since the first of Blue Orchards funds' inception in 1998, the fund managers stated goal was the that the fund would return 200 basis points above LIBOR (six months rate), The London InterBank Offered Rate (a combination of a basket of interest rates). LIBOR itself has fallen in recent months and so I was fully aware that my return would fall in line with this, but would it be able to maintain its targeted return? I need not have worried, my 2008 return was, wait for it, 5.67%, the last three years 5.17%, and the last five years 4.99%. The particular fund I have invested in, the Euro denominated one, started in April 2003 has return 27.04% since its inception.

The Dexia Microcredit fund now invests in MFI's with over 7.5 million clients, let me say that again, 7 and one half million people have access to the funds that I invest, who otherwise would not. In short I am part of a fund facilitating access to credit for up to 7.5 million people at any given time and getting a healthy return annually on that investment, helping people to help themselves and doing very well financially simultaneously.

The original Dexia fund denominated in US\$ has fared even better since its inception in September 1998 returning 5.94% per year over the past five years and 65.36 % since inception. If we consider the performance of investment funds, pension funds and property portfolios over the past year, and likely the next few years then there appears to be a compelling argument for these funds to put their client's money where it is safest, offers a stable return and has a track record of doing so in the toughest of times.

Garrett Wyse is the Vice President for Business Development for Micro Venture Support. He is an economist with a long history of evaluating and reporting on microfinance initiatives in Africa and support for MFI programs in Ireland. He may be reached at: garrettwyse@gmail.com

Introducing Our New Discussion of the Role of Marketing for the MFI

By, Bruce Meraviglia

For those who have been faithful readers of Microfinance Focus, you will recognize this as a new column. You may be wondering as to the title it bears, and rightly so. Marketing, in general, is not often associated with the MFI industry. Rarely have I come across anyone associated with an MFI who has spoken of their marketing department as being integral to the function of the MFI, or a key contributor to the strategy the MFI is following in reaching out to new or existing borrowers.

In the field of non-profit agencies in general, and MFI's in particular, the marketing function, if it exists at all, is seen as a minor contributor to the overall function of the organization... little more, in many cases, than an internal public relations group which handles the issuance of press releases and responds to inquiries from publishing organizations wishing to mention the MFI in a news article, or, perhaps, to solicit coverage by a media organization.

This is in marked contrast to the central role of the marketing department in a for-profit company; a role that not only reflects the strategy of the company, but is also a key contributor to the development of that strategy. In a for-profit company, the image of the organization as it is presented to the marketplace it serves, as well as the branding of its products and services, is the primary role of the marketing department. Few companies would forego the establishment of a marketing function (regardless of its size) in order to increase the budget of another department.

While the marketing function within a for-profit company is usually smaller than the size of the operations, finance, sales, or human relations departments, its output is not a measure of the number of people assigned to it, but of its creativity and innovativeness. In a world where the number of available channels for reaching a desired group, be it potential customers, strategic partners, industry analysts, or investors, has been significantly increased with the availability of the Internet, the contributions of the marketing department have also become more complex in the search for the most effective message for each channel.

Over the coming months, we will explore together the role of the marketing function within the MFI community, issues related to branding versus the desired awareness the MFI would like to present, and often overlooked issues such as the classical role of a marketing department versus the more specialized role of a product marketing function. As we explore the role(s) and potential value of a marketing department with an MFI, we will also make use of the Internet to create an opportunity for discussion of the topics raised in each column. Each month, we will summarize the column presented in Microfinance Focus on the blog section of our website, and allow for responses from you, our readers.

As the Marketing Reflections columns unfold, we will be guided by three central questions: (1) Does an MFI benefit from a marketing department?; (2) What constitutes an effective marketing function with an MFI?; and, (3) What should be the focus of the marketing department within an MFI? I look forward to your comments about each column, and these three questions.

Bruce is an expert and commentator on both technology and marketing. He is former Marketing Director for several high Tec start ups. Bruce currently serves as CTO (Chief Technology Officer) for a well known NGO. He may be reached at bruce@microfinancefocus.com

To Build, Buy, or Borrow?

By, Bruce Meraviglia

This month we begin a new technology column for Microfinance Focus. This column will review current technologies that may offer benefits for MFI's, either for internal use or for the benefit of their borrowers – perhaps even to serve as potential business concepts the MFI may choose to present to potential borrowers. The technologies that will be reviewed will range from Information Technology (IT) to renewable energy, and such technologies in between that may be of interest to the MFI community. Each column will be complemented by an online Technology Review blog by the author on the Microfinance Focus website that will allow for feedback from the readers of this magazine.

For this month's column, we will discuss the issue of computer software for use within the MFI itself. In the field of software development, every organization has traditionally been faced with determining whether it is better off paying for its own IT personnel to develop software to meet a specific need (Build), or to purchase appropriate software from an outside vendor (Buy), including the potential cost of modifying the commercially available software to suit the specific requirements of the organization. This has traditionally been referred to as the Build versus Buy decision; a decision that each IT manager must make, and then defend to the executive committee of his organization.

This form of decision making is so established that it is taught in both technical universities as well as in business schools. In the past, it has been the traditional process for determining how new software should be acquired, and an endless source of conflict between the IT departments and the executive leadership of an organization; the IT personnel are seldom trained in how to write a business justification, and the business personnel typically lack the software experience to evaluate the technical criteria. In today's current business environment, this process is now further complicated by the potential to use software that has been made available for free for use by others (often referred to as "freeware"). This free software is essentially "borrowed."

Prior to the Internet, there were small communities of software developers who wrote this type of software; when the source code (instructions) were also made available, it was then referred to as "open source software." Since the advent of the Internet, these disparate groups of hobbyists (many of whom were often employed full-time as professional software developers) were able to come together to form larger communities of individuals who shared common interests in the types of software they developed, software such as accounting packages, word processors, or even the operating systems used to run computers. The most famous of these software development communities is the one that develops and supports the LINUX operating system, and the most widely used umbrella community where free and reliable software can be obtained is the SourceForge community (<http://www.sourceforge.net>).

While nothing is more attractive to business managers than capable software for free, or more attractive to IT personnel than the chance to use and enhance another group's software, the question that is seldom addressed by anyone is: "To what extent can you rely on software that is developed as a hobby by others for critical applications in the MFI?" If free software is acquired without the appropriate skill set of the internal IT personnel to support it, and there is no organization dedicated to support the MFI with training in its use or modification, is it more expensive to "borrow" free software than to pay for its traditional acquisition?

Bruce is an expert and commentator on both technology and marketing. He is former Marketing Director for several high Tec start ups. Bruce currently serves as CTO (Chief Technology Officer) for a well known NGO. He may be reached at bruce@microfinancefocus.com

Post Reform Period: Institutional Credit And Rural Poor in India

Dr. Amrit Patel

“It is high time for all stakeholders to commit themselves in a coordinated manner to Judicious use of Financial Inclusion Fund & Financial Inclusion Technology Fund and Undertake area based research studies to understand field problems and evolve area based policy rather than enforcing rigidly national policy.”

One of the objectives of the rural credit policy has been to minimize the dependence of rural poor on non-institutional sources of credit. The study of Basic Statistical Returns, 2005; Census data, 2001 and the Debt and Investment Survey during 1992 and 2003, however, exhibited a dismal performance of rural credit institutions, their policy and implementation.

Average population per branch served by scheduled commercial banks in rural areas was 13,462 in 1991 as compared to 14,484 in urban center. However, in 2001 and 2005, population per rural branch progressively increased to 15,667 and further to 16,650 whereas it declined to 14,137 and 13,619 per urban branch respectively. Between 1993 and 2007, while 4,750 rural branches were closed down, 4858 braches were added in semi-urban, 4,230 branches in urban and 6073 branches in metro centers. Thus, the banking system paid focused attention more on semi-urban, urban and metro centers' customers than rural customers. The profit-motivated pol-

- Annual Interest rate percentage in 2002-03 on borrowings from non-institutional sources was extremely exploitative as against institutional sources in 18 States in India
- Per hectare credit [Rs.1916] in 2002-03 from institutional sources accounted for 57.1% of the total [Rs.3356] at the national level as against Rs.545 [55.6%] of the total [Rs.980] in 1991-92 revealing insignificant increase. While 15 States had per hectare credit amount below national average [Rs.1916]
- 1991-92 and 2002-03 while the percentage share of landless and marginal households among rural households increased from 33.8 to 39.6 and 39.5 to 41.4 respectively,

icy directly impacted on the performance of their operations. The number of deposit and credit accounts per 1000 population in urban branches were 483 and 104 respectively as against 270 and 64 in rural branches. The number of deposit and credit accounts per urban branch were 6,155 and 1,321 respectively as compared to 4,202 and 1000 per rural branch. Deposit and credit amount per urban branch was as high as Rs.199.2 million and Rs.379.4 million respectively as against Rs.49.8 million and Rs.63.7 million per rural branch. Balance per deposit and credit account in urban branches was as high as Rs.32,360 and Rs.287,910 respectively as against Rs.11,840 and Rs.63,740 in rural branches. Credit-Deposits Ratio was as high as 190.5% in urban centers as compared to 127.9% in rural areas.

Out of total 89.3 million households, 45.9 million farmer households [51.4%] do not access credit either from institutional or non-institutional sources. Practically the flow of institutional credit in agriculture was stagnant between 1991-92 [55.65%] and 2002-03 [57.09%]. In Meghalaya institutional credit sharply declined from 91.88% in 1991-92 to 38.11% in 2002-03 whereas in Jammu and Kashmir it shot up from 42.80% to 82.74% reflecting abrupt change. Institutional credit in 2002-03 ranged from as low as 7.76% in Manipur to as high as 84.54% in Mizoram as compared to the lowest at 25.56% in Andhra Pradesh and the highest at 98.58% in Sikkim in 1991-92, showing extreme variance among States' access to institutional credit and heavy dependence on non-institutional sources of credit in 2002-03. In 2002-03 institutional credit in 11 States was below national average [57.09%], viz. Andhra Pradesh [37.5%], Assam [46.43%], Bihar [23.51%], Manipur [7.76%], Meghalaya [38.11%], Punjab [53.82%], Rajasthan

[38.69%], Tamil Nadu [46.63%], Uttar Pradesh [53.61%], Uttarakhand [53.94%] and West Bengal [48.63%].

Annual Interest rate percentage in 2002-03 on borrowings from non-institutional sources was extremely exploitative as against institutional sources in 18 States, viz. 30.87/12.75 [Andhra Pradesh], 36.02/11.73 [Bihar], 27.40/13.91 [Chhatisgarh], 23.85/13.54 [Haryana], 18.89/8.29 [Jharkhand], 25.19/14.33 [Karnataka], 29.48/13.15 [Kerala], 24.78/15.05 [Maharashtra], 51.17/25.36 [Manipur], 29.59/12.89 [Madhya Pradesh], 41.72/13.00 [Orissa], 18.24/12.72 [Punjab], 22.69/13.38 [Rajasthan], 13.29/9.89[Sikkim], 35.09/15.48 [Tamil Nadu], 26.30/11.95 [Uttar Pradesh], 27.52/11.92 [Uttarakhand] and 23.85/11.76 [West Bengal]. Rs.180 billion debt out of Rs.480 billion non-institutional debt carried 30% annual interest rate.

Per hectare credit [Rs.1916] in 2002-03 from institutional sources accounted for 57.1% of the total [Rs.3356] at the national level as against Rs.545 [55.6%] of the total [Rs.980] in 1991-92 revealing insignificant increase. While 15 States had per hectare credit amount below national average [Rs.1916] ranging from Rs.71 in Arunachal Pradesh to Rs.1833 in Maharashtra in 2002-03, seventeen States in 1991-92, had below national average [Rs.545] varying from Rs.45 in Meghalaya to Rs.504 in Arunachal Pradesh. The variance in respect of percentage of institutional credit to total credit per hectare ranged from 23.5 in Bihar to 90.9 in Jharkhand in 2002-03 as against from 25.6 in Andhra Pradesh to 94.4 in Jharkhand in 1991-92. Eleven States in 2002-03 had institutional credit per hectare, less than national average [57.1%] viz Andhra Pradesh [37.5%], Assam [46.5%], Bihar [23.5%], Ma-

nipur [7.8%], Meghalaya [37.8%], Punjab [53.8%], Rajasthan [38.7%], Tamil Nadu [46.6%], Uttar Pradesh [53.6%], Uttarakhand [53.9%] and West Bengal [48.6%] as against 15 States in 1991-92. These States also exhibited similar pattern in respect of percentage of per capita credit from institutional sources in 2002-03 and 1991-92 too.

Between 1991-92 and 2002-03 while the percentage share of landless and marginal households among rural households increased from 33.8 to 39.6 and 39.5 to 41.4 respectively, the share of small, medium and large households declined considerably from 13.0 to 10.6, 8.7 to 5.5 and 5.0 to 2.9 respectively. The percentage of landless and marginal households having access to non-institutional sources shot up sharply from 10.6 and 10.8 in 1991-92 to 13.5 and 13.8 respectively in 2002-03, whereas percentage of small, and large households' access was considerably less from 10.3 and 7.9 to 9.4 and 7.7 respectively. There was no difference in case of medium households. Interest rate on borrowings from non-institutional sources for landless [30.2%] and marginal households [28.1%] in 2002-03 was much higher than the interest for small [26.3%], medium [25.6%] and large [25.2%] households.

At national level the landless and marginal households accounted for 81% as against 19% of small, medium and large households in 2002-03. However, Kisan Credit Cards [KCCs] issued and credit provided through KCCs to landless and marginal households accounted for 40.4% and 16.1% respectively, as compared to 59.6% of KCCs and 83.9% of credit issued to small, medium and large households in 2002-03. Similarly, use of KCCs by landless and marginal households during 365 days in 2002-03 was 35.07% and 47.39% respectively as compared to 63.69%, 70.97% and 81.24% by small, medium and large households respectively. None of the landless households was issued KCC in five States [Arunachal Pradesh, Manipur, Meghalaya, Nagaland, and Sikkim]; none from small households in three States [Nagaland, Sikkim and Tripura]; none from medium householders in five States [Jharkhand, Manipur, Nagaland, Sikkim and Tripura], and none from large households in eight States [Arunachal Pradesh, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura]. Credit was not provided to any of the KCC holders from landless

households in five States [Assam, Chhatisgarh, Himachal Pradesh, Jharkhand, and Mizoram]; marginal households in four States [Arunachal Pradesh, Mizoram, Nagaland, and Sikkim]; small households in Mizoram; medium households in three States [Himachal Pradesh, Mizoram and West Bengal] and large households in two States [Kerala and West Bengal].

The growth rate of food grain production decelerated to 1.2% during 1990-2007, lower than annual population rate averaging 1.9%

This has been the status of institutional credit for rural poor when the flow of institutional credit, since the adoption of "Multi-Agency Approach" in 1969, continuously increased from disbursement of agricultural credit of Rs.2,851.46 million and Rs.6,851.46 million in the Ninth and Tenth Five Year Plan respectively. A serious question, therefore, arises whether access of rural poor to institutional credit would surely improve to the expected level during eleventh Plan when institutional agricultural credit envisaged is of the order of Rs.19,595.24 million.

It is high time for all stakeholders to commit themselves in a coordinated manner to [i] implement effectively the concept of service area approach [ii] make productive use of non-banking working day, disbursement day & business correspondents [iii] introduce novel financial products including biometric smart card [iv] effectively establish Financial Literacy & Credit Counseling Centres[v] Judicious use of Financial Inclusion Fund & Financial Inclusion Technology Fund and [vi] undertake area based research studies to understand field problems and evolve area based policy rather than enforcing rigidly national policy.

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Dr Amrit Patel is PhD in Banking & Finance, has 25 years experience in Bank of Baroda & since 1995 has been senior consultant Rural/MF with projects funded by World Bank, ADB, IFAD in Azerbaijan, Tajikistan, Kazakhstan, Bangladesh, Uganda. He has contributed over 600 articles/papers in leading financial dailies, journals, Microfinance Gateway. You may reached him at amrit_rpatel@yahoo.com

PPP for rural youth entrepreneurs

India should focus on its lack of entrepreneurial talents among the rural youth. This should happen with the help of supportive development institutions under a PPP (Public Private Partnership) model.

Dr. Souren Ghosal



In recent years some change is visible, particularly in urban and metropolitan areas. It may also be mentioned that some sections of Indian people have earned name and fame almost globally as entrepreneur of small retail business houses particularly in provisions, clothes, and gold and silver ornaments businesses. It is interesting to note that such entrepreneurs could be traced in most of the countries of the world as since time immemorial these people have migrated from India to set up their trading businesses in various parts of the world. It would be further interesting to note that most of these people migrated from their villages and towns and stayed over there for generation. In fact even in agriculture (like sugarcane) Indian farmers have enriched many backward countries through their entrepreneurial skill. However it is equally true that India lagged in Schumpeterian model of entrepreneurship for quite some time and of late only this could be seen emerging in metropolitan and also in some developed parts of urban areas.

GLUED TO FARMING

Most of the Indian villagers remained glued to farming only partly because the traditional farming was seasonal and provide enough time to laze away. It also needed no formal education. Moreover but for monsoon failure, the risk in farming was almost negligible and hence remained attractive for generations. However with the emergence of risks beside monsoons, for example seeds, attack of pesticide and volatility of prices of agricultural products, farmers over the years developed a mindset of fatalism and cursed their fates for any calamities and sought doles, waiver and charity from governments and charitable institutions.

It would not be wrong to say that successive governments and politicians even after independence followed a policy to keep farmers and artisans under their thumbs by making them dependent on their doles, grants and subsidies etc. This seemed to help them to build their vote banks.

However it would be wrong to assume that villagers could not be transformed as entrepreneurs as they have been found developing many innovations even with primitive traditional knowledge for survival. It would be possible to develop an appropriate entrepreneurship model if rural youths are empowered with essential marketable skills.

FORTUNE AT THE BOTTOM OF PYRAMID

Dr. C. K. Prahalad in his famous book 'The Fortune at the Bottom of Pyramid' has brought out how poor people in rural India could become employable by adopting new growth models suitable for generation of new employment opportunities and economic growth. In this regard he stressed that the role of multi national companies (MNCs) has to be re-defined. He emphasized that the present trend of MNCs to cater for mature markets need to be changed. It has to be extended even to poorly developed markets in villages and semi-urban areas by introducing some strategic changes like packaging and pricing.

It would not be difficult as the recently developed supply chain management techniques empowers industries to reach easily and in cost-effective way to the remotest area of any place. Some initiative of this nature have already been taken by some consumer goods industries and no doubt these efforts have helped these industries to capture more space and also have helped villagers not only to earn and spend but also to produce and consume these along with people residing in urban and metropolitan towns. However these efforts have led to growth of market for MNCs but have not helped villagers to develop their latent potentiality of becoming fully fledged entrepreneur as manufacturer of goods. It is true some of the villagers

could develop some supply chain management and retail business in the process.

Need for mindset change in framing policy

It appears there is need for some paradigm changes in our policy thinking as well as our mindsets, and particularly those our politicians. In this regard India's former president Kalam's vision of providing urban facilities in rural areas (PURA) is worth mentioning as this is possibly one such step that would help transforming agri-business potential through knowledge, institution and technology platform. It would therefore need to be multiplied to help spreading knowledge and technology to rural youth. It has to have in mind that technological innovations could also emerge in the laboratories of life as rightly pointed out by Dr. RA Mashelkar, (short explanation who is it, for non-Indians). Accordingly this has to be stressed in all efforts to rejuvenate rural youth and transform them as entrepreneurs.

Focus on disparity investment in rural areas

In fact investments made in rural areas though undertaken extensively and at times even massive amounts have been earmarked for various rural projects but all these generally have proven ineffective as most of these are in the form of subsidies, doles and waiver of loans instead of investment in infrastructure development in rural areas. These also failed to generate effective delivery institutions and virtually generated highly corrupt institutions manned and fanned by politicians and rural elites. In fact the highly noticeable disparity in between rural and urban infrastructure like roads, transports, power and communication have created the hiatus in economic growth of rural and urban areas. Lack of infrastructure in rural areas have made private sector also hesitant to develop industries over there. It is true the scene is changing and some new industries are growing in villages or its outskirts. But essentially villages have remained agrarian with low and disguised unemployment. It is therefore high time for policy makers not to introduce employment opportunity plans like Rojgar Yojna's NREG (National Rural Employment Guarantee scheme) where unemployed rural youths are either given work of mud lifting or paid even when no work could be allotted to them. This would obviously make them lazy and some of them even come out to refuse digging mud and to carry the same for dumping at some allotted place. It is difficult to fathom out the type of mindset of politicians who actively advertise such projects and feel complacent and happy as if they have been doing great work for poor villagers. In fact it would not be wrong to state that 'the pro-

gram seemed well designed for bureaucrats and politicians to siphon off money'.

CHANGE MINDSET OF POLICY MAKERS

However if something has to be done for rural poor it would be necessary to change the mindset of policy makers and bureaucrats. In fact rural areas should not be considered as agricultural belts and rural youth should not be taken for granted as farmers and artisans only. In fact rural youth like all other youth should be considered as human resource and could be shaped like all other youths as entrepreneurs, innovators, professionals and managers. In fact many rural youth after getting some education have migrated to urban areas and have developed many new business and even industries. It is therefore natural question that would arise in the mind of any rational man what for these migrations should continue and why not such thing could not be done in rural areas. The answer is not very far to seek. It is the lack of infrastructure that has led to such migration of youth. It would therefore be necessary for government, enlightened institutions and individuals to come forward with projects both agriculture and other sectors including service and manufacturing to provide opportunities to rural youths to work in these village projects and enterprises.

PPP MODEL RECOMMENDED

In this regard it is worthwhile to keep in mind that there would be some lag in developing village entrepreneurs as there would be dearth of capital to develop village projects and enterprises but this could be dealt with by developing institutional entrepreneurship as is done to meet the capital needs of urban entrepreneurs by creating development banks. However in this strategy also there could be some difficulty as overall supply of individual entrepreneurs and managers with necessary education and aptitude might not be readily available.

It would therefore be imperative that institutions under public private partnership model should be developed to fund and organize ventures to provide services and to manufacture product. Such organizations should conceive projects for compact lands for farming and for clusters of artisans for manufacturing, trade and commerce. States in developing countries have assumed the role entrepreneurs. In some of the developing countries including India some efforts have been made to institutionalize development activities even in rural areas but these have not been specifically assigned the much needed role to act as catalyst for growth of individual entrepreneurs. In fact villagers could have been as good as city dwellers but for lack of infrastructure including education. It would therefore be necessary to hold the hands of villagers for some period

and enable them to grow as entrepreneurs and managers without getting the shocks of market and monsoon or such other natural risks for some time as these have created fear psychosis in villagers for generations and obviously they need some time to get over such psychology and become an entrepreneur rather than remain as fatalist and dependent on doles alms and other charities.

APPLICATION OF RECOMMENDED MODEL

In recent years some efforts have been made to hold hands of farmers and artisans by some micro financing institutions particularly in south. Pragati Bandhus in Karnataka is one such model, providing hassle free loans to farmers but also supporting them to prepare crop planning along with marketing and technology support.

This is obviously a better model than usual patterns followed by MFIs to act as lender to farmers. For real success it is imperative to shoulder the risk of farms and firms in rural areas. The ultimate need is to enable them to get enough confidence, managerial and financial strength to become entrepreneurs on their own. Only with such transformation of rural and particularly young people there to outnumber others could make India a developed country and decouple it from the present global meltdown.

CONCLUSION

It is obvious therefore that the present lag in entrepreneurial development in rural areas in India could be overcome if institutional entrepreneurs under public private partnerships are formed. This would not only help in risk minimizing but also in risk sharing and that would help risk averse rural youth to undertake business and farming with more gusto and less fear. It would make them also real entrepreneurs after they start tasting success in their enterprises jointly managed with state partnership. In the process they would also be groomed as better managers under the enlightened and better educated executives drawn and recruited by the state. *****

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Financial Research Associates LLC (FRA) organized their 3rd Microfinance East Investment Opportunity Conference January 29th and 30th at the Harmonie Club in New York. The attendees were treated to a great two days with more than fifty experienced keynote speakers and panelists and around one hundred attendees, many of whom also had valuable experience....

Investment Opportunity

The 3rd Annual Microfinance East Conference

Peter Burgess, Correspondent– New York , Microfinance Focus

Introduction

Financial Research Associates LLC (FRA) organized their 3rd Microfinance East Investment Opportunity Conference January 29th and 30th at the Harmonie Club in New York. The attendees were treated to a great two days with more than fifty experienced keynote speakers and panelists and around one hundred attendees, many of whom also had valuable experience.

The conference came at a very interesting time for the microfinance industry. There are important conversations going on in the industry. One of these conversations concerns the relative importance of social value return and financial return in the industry. Another is the impact that the global financial meltdown in mainstream financial institutions will have on the microfinance industry.

Both of these conversations are hampered by a chronic lack of reliable data. While there are more data now than even before about the financial performance of microfinance institutions (MFIs), with much of these data accessible through easily accessible databases like the MIX, there are little data about impact and social value creation. The whole area of impact assessment is being looked at, it seems, only from the perspective of the MFIs and their clients, and hardly at all from the broader impact on the community as a whole.

The FRA Conference brought together potential and current investors in the microfinance industry and people from all parts of the industry from the big banks and investment funds, to the growing number of intermediaries to the operators of MFIs. Among the participants there were many different points of view ... many opinions ... but not so much data that confirmed anything.

The dialog was broad and deep ... but the data dimension of the industry is still inadequate.

This conference was held in the same week that the Microcredit Summit Campaign announced that more than 100 million clients had been served by the microfinance industry in 2007, up from about 8 million ten years before. Sam Daley Harris, Founder and CEO of the Microcredit Summit Campaign announced this landmark in the company of Muhammad Yunus and Ingrid Munro who have built very successful MFIs using a social value model.

The FRA Conference ... a conference about investor opportunity ... did not dwell on the social value model but moved, right from the start into the financial opportunities there are through commercial financing of the industry. The MFIs working with microfinance clients have clearly done a very good job of achieving repayment of the loans, keeping costs under control and being financially viable by charging high fees or interest. These performance factors are attractive, and justify investor attention.

The tension is that if the performance metrics are simply financial metrics, more and more MFIs will change their focus to be top performers with respect to these metrics, and the critical social value and pro-poor organizations will be starved of financial support. Low financial performance caused by inefficiency is one thing ... low financial performance because social value is a big part of the work is quite another.

The conference had representatives from every bit of the industry ... including from the microfinance networks like FINCA, ACCION, UNITUS and others that have played a very big role in moving best practice from one place to another, as well as helping to move essential funds where they are needed. It was evident from the conference that innovation is going on all the time ... as evidenced by the work of Mercy Corps in getting the Bank Andara organized to serve the microfinance sector in Indonesia.

During the first 25 years of the microfinance industry growth, capital was obtained from the multilateral and bilateral development institutions, mainly on a grant basis. In the last five years there has been rapid growth in the supply of capital from the capital markets as equity or loans on more commercial terms. This has been facilitated by the development of Microfinance Investment Vehicles (MIVs) that have made it possible to have the sort of scale that capital markets demand, and at the same time, appropriate scale for the MFIs getting the funds.

Up to now the scale of the financing through MIVs has been modest by capital market terms, but represents a big increase in available capital for microfinance. The good

Brief

- While there are more data now than even before about the financial performance of microfinance institutions (MFIs), with much of these data accessible through easily accessible databases like the MIX, there are little data about impact and social value creation.
- The MFIs working with microfinance clients have clearly done a very good job of achieving repayment of the loans, keeping costs under control and being financially viable by charging high fees or interest. These performance factors are attractive, and justify investor attention.
- It was evident from the conference that innovation is going on all the time .
- There are already signs that microfinance may change its character from being pro-poor with a focus on the social impact to being much more focused on the importance of financial return.
- The anecdotal evidence is that the microfinance sector has been much less affected up to now than the mainstream international banking, commercial and industrial sectors.
- Another dimension of microfinance was also evident. The microfinance industry has moved a long way from the small loan group lending that was the sole product 30 years ago.
- Microfinance infrastructure may be used to finance other important initiatives in the community.

news appears to be that there is now a workable infrastructure to get substantial additional capital into the microfinance industry. People like Asad Mahmoud at Deutsche Bank, and Howard Finkelstein, a lawyer in New York, working with the founders of groups like Blue Orchard have been key in making this possible.

There are already signs that microfinance may change its character from being pro-poor with a focus on the social impact to being much more focused on the importance of financial return. There are credible arguments on both sides. The social value group argues that the pro-poor efforts will diminish as financial goals become important. The financial focus group argues that people will benefit much more if the industry has access to adequate capital, and that this is only possible by offering an adequate financial return.

This is a very important discussion ... and both sides were present at the conference ... both appealing to the investor community. One group stressing that many investors are now looking for socially responsible investment vehicles,

and the other group saying that microfinance was a good investment anyway.

The example of Compartamos came up ... towards the end of the conference Michael Chu who had been associated with Compartamos and is now the Co-Founder and Managing Director of the Ignia Fund, made the case that good returns from microfinance were in the interest of everyone, and that financial success in microfinance will drive increased fund availability for clients who are very poor.

However, earlier in the conference the very weak framework for accountability was identified as a potential problem, with well known names in the rating industry now trying to serve microfinance ... even though they do not seem to have done very well with rating mainstream financial instruments correctly. Damian Von Staufenberg, the founder of Microrate, and Emmanuelle Javoy, Managing Director of Planet Rating both made the case that there was no substitute for field research, and that the models used by Standard and Poors, Moody's, Fitch and others were absolutely no substitute for eyes on the ground.

Several of the people representing operating MFIs described many of the critical issues that they needed to address. The issues were area specific ... country specific ... and spanned everything from local culture to the enabling environment created by government. The consensus was that microfinance was a positive influence on the clients ... that money was essential ... that savings were perhaps as important as fund flows from external investors ... that time to sustainability may not be quick. While microfinance has worked everywhere ... exactly how it has worked has been different in the Americas, in South Asia and the Pacific region and in Africa. Perhaps the fastest growing area for commercial microfinance investment over the past few years has been in the emerging economies of Eastern Europe and the Former Soviet Union. What this means is not totally clear.

The impact of the present global financial crisis ... with its epicenter in the US housing crisis and the US banking industry ... on the microfinance industry was on everyone's mind. There are little data that helps ... but the anecdotal evidence is that the microfinance sector has been much less affected up to now than the mainstream international banking, commercial and industrial sectors. This was not surprising given the diversified nature of the MFI's portfolio, none of whom have very much connection with international anything. In fact, it is even possible that very poor people are ahead in this recession because food and energy have returned to more normal levels. While a few surplus producing communities did well from high food prices, the vast majority of poor people are consumers rather than producers and were getting more and more in

crisis during the peak of energy and food prices in the middle of 2008.

The crisis in international financing of microcredit is going to be when currency exchange rates change and loan repayments in hard currency have to be funded from low value local currency. Conversations about the "small print" are absent with nobody really wanting to talk about the terms that kick in when things go wrong. Rather the conversation turns to hedging currency risks ... with lots of long words I really do not understand. However, it is my understanding that it is impossible to hedge structural changes in currency exchange rates ... what actually happens is that the true costs are merely anticipated ahead of time. This, of course is not what people want to talk about, and the people at the FRA Conference were no exception.

Another dimension of microfinance was also evident. The microfinance industry has moved a long way from the small loan group lending that was the sole product 30 years ago. Now there are a range of finance products, of which micro-insurance is one. But the industry is going further than this, and there is a realization that the microfinance infrastructure may be used to finance other important initiatives in the community. Some of these initiatives include micro-communications, micro-health, micro-energy and others. Some of these possibilities were talked about at the conference, and it seems they will be on the agenda again.

This conference had more than 50 presentations ... keynote speakers and panelists and every single one was worth listening to. The attendees were also a serious group of people representing important organizations that now make up the microfinance industry from where the capital is to where the pro-poor microfinance services are delivered. My impression was that useful contacts were made, and that there was a very productive sharing of ideas. This was facilitated, I believe, by many of the speakers having other members of their organization present. In this way the dialog can grow and continue.

The conference was organized by Financial Research Associates LLC and sponsored by Fern Software and Concord Dervcing Corporation.

Some of the presentations will be accessible to the public in due course ... but not yet.

Peter Burgess: New York Correspondent

Mr. Burgess is a senior manager with significant experience in Microfinance. He is also a Chartered Accountant, global activist with a deep knowledge of African commercial law and practice. You may reach him at peter@microfinancefocus.com

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Cover Story

GLOBAL MELTDOWN AND MICRO FINANCING

Dr. Souren Ghosal
From Microfinance Focus

**A STRATEGY TO RESTORE CONFIDENCE AND VIBRANCY
IN THE FINANCIAL MARKET**

Global meltdown has created chaos in financial markets particularly in developed countries. It is fast spreading all over the world. It has mainly originated from the leverage but also due to opacity of financial instruments floated in the market due to overplay of technology and expertise recently brought in the markets. An attempt has been made globally to bail out the affected financial institutions through treasury support but this appears to be inadequate as it would not help in restoring confidence of investors and also of financial markets. It would be necessary to adopt a strategy to restore confidence of common people and provide support to poor to enable them to take up economic activities and generate sustained income. This would be the only effective strategy to come out unscathed from the present meltdown.

Global financial crisis has spared none – individuals or institutions- rich or poor- developed or developing countries- global or a country, institutions- financial or non financials. Each one has been experiencing the heat of financial meltdown in one form or the other.

BAIL OUT STRATEGY

It is therefore surprising to observe that an all out effort has been undertaken by most of the developed countries to bailout their big banks and insurance companies but regrettably there is no visible effort could be seen to provide succor to small people and micro institutions both manufacturing and financial institutions providing finance, service and employment opportunities to their poor people.

It would be interesting to note as has been recently brought out by Bank of England that global taxpayers have already paid around \$ 8 trillion to bail out big global banks. But currently no such serious big scale efforts have been made to bail out poor borrowers even for their dwelling house mortgage loans.

ADVERSE IMPACT

No one can deny that poor people even in rich countries are burnt seriously in the present financial crisis. It should have also been realized that such effects would turn them desperate to indulge in theft and crimes for survival if immediate succor is not provided to them.

It has to be appreciated that credit crunch resulting from liquidity crunch – one of the key reason of the present financial crisis- affects poor more adversely as most of them are heavily dependent on financial institutions. In fact it ripples through the entire economy affecting each and everyone as it raises the cost of credit and makes it scarcer each day and thus makes it difficult to borrow from formal banking institutions and survive. It obviously ultimately leads to job cuts and consequent unemployment.

SOME PROFOUND OBSERVATIONS

Joseph Stiglitz has rightly said that the present bail out plan of USA is 'like a patient suffering growing

massive blood transfusion while there is internal bleeding, it does not do anything about the basic source of hemorrhaging'.

Similarly Paul Craig Roberts (Wall Street Journal) has observed that such bailout program should have been thought for helping people with failing mortgages instead of bailing out banks.

INSULARITY OF MICRO FINANCING INSTITUTION

It is true global financial crisis has not yet directly affected micro financing institutions as has been observed by Jacques Attali, the founder of PlaNet Finance of France. However he also added that the future is uncertain one does not know when and where it may happen.

However there should not be any doubt that global credit crunch would severely affect micro financing institutions also if immediately some positive policy measures are not initiated to insulate these institutions from the present crisis as these institutions heavily lean on endowments and bank funds. It is obvious that under credit crunch and resource evaporation due to meltdown would not only make availability of funds difficult but also would make it costly. It would therefore become imperative for states to fund these institutions not only to save the poor but also avoid rising despair and social tension that would generate heat and social turbulence all over.

However an in depth study would reveal that these institutions have over the years earned the reputation of maintaining a very enviable record of repayment of their debts—almost at 99% level—and also enabling poor people to earn their livelihood through sustainable business or farming. In fact these features have helped them to source fund from outside equity and endowment funds even today. This is true that due to global meltdown such funds are gradually drying up but despite this it is interesting to observe the interest still evinced by these funds in these institutions. It is therefore high time to make conscious efforts to insulate these institutions from the glowing fire of meltdown that has shaken the confidence of people on all highly developed and sophisticated financial institutions worldwide.

However it has not yet affected these institutions as

because these institutions have been able to maintain their enviable repayment record and also to generate entrepreneurs and sustainable business for poor and neglected sector of the society. This indeed will help them to grow despite the dark cloud of bankruptcy of financial institutions hovering all around the globe. It would therefore all the more necessary to strengthen these institutions further to save these from the onslaughts of present financial crisis.

POLICY MEASURES TO INSULATE MFI

It would therefore be necessary not only to come forward to save these institutions by providing funds and enabling them to help rural and urban poor to pursue their economic activities and earn livelihood with dignity and confidence but also help generate confidence of general public in financial markets and instruments..

In this regard recent Chinese efforts to rejuvenate rural poor by introducing land reforms to vest farmers the right to own land and empowering them to get adequate funds from banks should be commended.

TO STRATEGIZE INSULARITY NEEDS TO ANALYSE THE PRESENT LIQUIDITY CONSTRAINTS – FUNDING LIQUIDITY AND MARKET LIQUIDITY

The present strategy adopted in India to counter the melt down effect on the economy is to enhance credit availability in the market by initiating measures to improve the liquidity position of banks. It has been repeatedly emphasized by policy makers to give more loans to business and corporate houses so that the present illiquidity in the financial market could be taken care of and emerging recession thereof could be avoided.

However it has to be understood that there are two types of liquidity: one is funding liquidity and the other one is market liquidity. The funding liquidity arises when a trader is unable to fund his deal and therefore is compelled to unwind the deal whereas the market liquidity refers to ease in trading and high resilience that is where trade has a low bid and low price impact. In simple language it indicates that market function smoothly without any hassle under ap-

propriate market liquidity.

It is unfortunate that both funding and market liquidity risks have overtaken the financial markets and hence dealers and manufacturers in the market are closing their shops or cutting their production and supply in the market due to market liquidity constraints and along with that to add fire to the fuel banks are also experiencing illiquidity of extreme nature as they have to provide more finance to retrieve trade and commerce from their rising defaults and also to meet the growing demands arising from innovative instruments and hedge funds where it has become difficult to honor bids of each other on time.

LEVERAGED DEALS LEADING FINANCIAL CONSTRAINTS

It is true that the present crisis has arisen mainly due to bursting of housing mortgage loans but this has deteriorated further due to large exposure of financial institutions in highly leveraged deals. It obviously resulted in heavy losses to even best managed and well reputed banks of US, Europe and U.K. In fact it has led to systemic risk and caused illiquidity spiral. It obviously leads to market illiquidity and consequent collapse and bankruptcy of financial institutions not only in one market or even in one country but almost globally. This would continue until a new equilibrium is created by policy and strategy changes that are now keenly debated and periodically introduced by policy makers to test the efficacy and ultimate impact to reduce the intensity of fire arising from this turbulence.

IMPACT OF ILLIQUIDITY

The present liquidity constraint has affected adversely the asset prices and created downward liquidity spiral which has in turn has adversely affected balance sheets of many banks. It has therefore become necessary for them to de-lever. These are no doubt imperative measures to bring back banks to their normal operating condition but the present crisis has gone so deep that something more might be needed to bring back the confidence of people, and market.

CHART EXHIBITING LIQUIDITY SPIRAL

The chart exhibited below highlights in what way the circle of liquidity to illiquidity and vice-versa happens in the market.

In fact if the problem would have been only illiquidity or liquidity spiral it would have been solved by the monetary and fiscal measures recently taken by the government and the monetary authorities of India.

May be some further measures like enhancing capital base of banks and or enhancing deposit guarantees of all financial institutions would be required to halt any further deterioration of Indian economy and might bring back the rate of economic growth at some respectable level. But this would not happen as the immediate need is to restore confidence of people on financial institutions and instruments. This would be possible only when much more transparent and simple institutions having direct contact with masses are encouraged, supported and revived by policy measures and management and risk support. For this obviously micro financing institutions stand out as an ideal institution.

STRATEGY TO RESTORE CONFIDENCE.

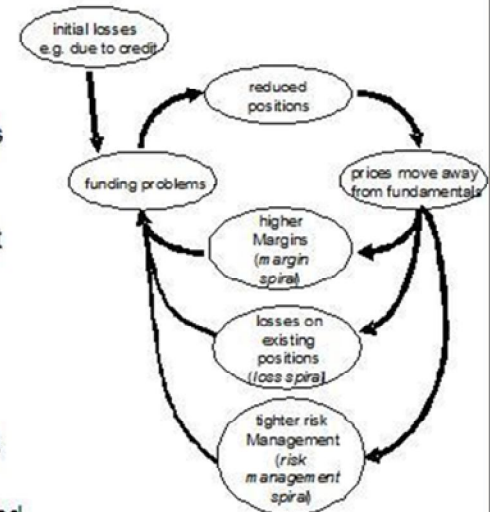
It is obvious therefore that the strategy should be tackle the two fold problem simultaneously. In the first phase there is need to restore the confidence of investors in the financial market and financial institutions. And in the second place one has to generate adequate employment opportunities to combat the aftermath of the meltdown—unemployment. In this regard it would be imperative for the government to create special funds to give boost to infrastructure development of the country which is woefully poor and also to empower and regulate the micro financing institutions in the country to fund the poor to de-

Chart 1

Some traders hit or near margin constraints (or risk limits) and reduce positions, which:

1. moves prices against them (and others with similar positions) leading to further losses, and
2. increases volatility and reduces market liquidity
3. increases margins and tightened risk management.

All of which lead to further funding problems. This leads to reduced positions and the 3 cycles restart. Continue until a new equilibrium is reached



Sources: [Garleanu and Pedersen \(2007\)](#) and [Brunnermeier and Pedersen \(2008\)](#)

velop appropriate and economic activities for farmers and artisans. It is perhaps the only financial institution in the country which is insulated from the present global meltdown and hence even global equity funds and charity funds are still funding these institutions in India. It is however necessary to augment their resources as much as feasible as this is perhaps most effective institution to bring back confidence of masses in the financial markets of the country. Already some of our financial institutions and banks have started evincing interest in funding these institutions as could be seen from recent funding of SPAN-DAN by SIDBI to the tune of Rs. 200 crores. This trend should continue as it would have a very healthy effect on the economy and insulate the country from the impact of the present global meltdown.

NEED IS TO DEVELOP PPP MODEL FOR MFI--A NEW BUSINESS MODEL

As regards India Attali opined rightly that 'India is a very important country as far as micro finance is concerned as financial inclusion in India is lowest in the world as India has been ranked 50th below countries like China, Kenya and Morocco. It would be therefore all the more necessary for India for not only to bail out banks by redeeming farm loans but also to make available enough liquidity to farmers and artisans at competitive rate of interest so that they can pursue their economic activities profitably with the support

of competent management team along with risk sharing by commercial banks both public and private. It would definitely de-couple India from the present global meltdown.

In this regard micro financing institutions if funded adequately and supported by the government and funding agencies may create miracle. As regards India Attali opined rightly that 'India is a very important country as far as micro finance is concerned as financial inclusion in India is lowest in the world as India has been ranked 50th below countries like China, Kenya and Morocco. It would be therefore all the more necessary for India for not only to bail out banks by redemption of farm loans but also to make available enough liquidity to farmers and artisans at competitive rates of interest so that they can pursue their economic activities profitably with competent management team along with risk sharing by commercial banks both public and private. This would definitely de-couple India from the present global meltdown. It would therefore be necessary to develop appropriate model of MFI so that these institutions render all types of services that are generally considered as felt need of poor.

Final Suggestions (Conclusion)

It would therefore be imperative to change the present model MFIs as the existing model of these institutions would not be able to reach all farmers and artisans and urban and rural poor for two reasons— inadequacy of funds and incapacity to bear and manage risks. It would therefore become much more effective institution if these institutions are developed on public private partnership model where funds and management support is provided by the state, banks, farmers and artisans. These institutions could develop on cluster basis business activities for artisans and on compact lands of ten to twenty acres a well thought out farming projects for farmers owning that plot.. These institutions may be organized in blocks or cluster group villages by lead banks along with other operating banks both public and private. Obviously it would outreach larger and needy section and therefore would be able to restore confidence and generate economic activities of people not only on sustainable basis but also on much rewarding basis. To illustrate a live model has been structured and through

illustrating how the existing farming practices could be replaced with projects conceived and implemented through these institutions could transform the village economy and bring out latent potentiality of farmers and farms,

The proposed MFI has to be structured as limited company with share holding of banks, farmers and share croppers and all other stake holders. The share-holding pattern would provide adequate empowerment and management right to farmers and artisans so that they could feel that they are not employees but owners of the proposed MFIs.

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Microfinance Focus

Good recreation or bad bump on MFIs



Praveer Ghodgaonkar

If history could serve as a lesson, one might look back to the late 1990s when a recession hit Southeast Asia and Latin America. Although the current crisis is substantially larger and affects economy globally, there are some similarities in their effects. Declining investor and consumer confidence can create a lack of funding.

In Indonesia, in the mid of the 1990s financial crisis, the currency collapsed and the economy decreased 13 percent in 1998, impoverishing much of the middle class. But the national network of People's Credit Banks, serving the low end of the microfinance market with loans averaging US\$77, held their collective loan portfolio more or less steady throughout the crisis.

Throughout past financial crises - especially those of the 1990s (Mexico, Asia, Russia) - financial services for poor people have shown remarkable resilience to shocks. In fact, the loan portfolios of microfinance institutions (MFIs) in Asia during the Asian crisis and in Latin America during various banking crises barely blinked, while corporate portfolios collapsed.

“Pause in growth would definitely give us an opportunity to re-evaluate, challenge our assumptions and chart a new path forward.”

This is because these banking and currency crises had little relevance to subsistence-based economies in closed ecosystem markets. The present financial crisis is not different than others and microfinance is far more connected now. Although microfinance still has deep shock-resistant roots, but still one can not deny the impact, both on the microfinance institutions as well as on the clients they serve. The medium and long-term effects of a global recession are likely to be punishing to poor people.

Still it is too early for anyone to be certain of the full impacts of the global economic slowdown, inflation and the global financial crisis on microfinance in India, but there are no signs of remarkable decreases in demand (for credit) or of large spikes in loan delinquency. Still it is better to be cautious.

Also another factor is lives of the poor are alienated from global markets, with borrowers making their livelihoods in the more flexible parallel informal sector.

The effects on the poor may be harder to read, but the market signals on funding for microfinance are clearly indicating a contraction. Increased inflation and other factors drives up the interest rates for borrowing from banks and this will hit Indian MFIs particularly hard, given the high level of leverage across the industry. MFIs have still not passed on this cost of funds increase to their borrowers. The Indian public and government authorities are sensitive to interest rates and a rise in many parts of India would be difficult to push through.

Beyond the pricing changes, there also appears to be a tightening of the total loan funds available. MFIs report that it's hard to increase their credit lines compared to previous years. Banks are lending cautiously in the present climate and industry expects that the funds available to MFIs will level off in the coming years. MFIs are already scaling back growth plans to

focus their efforts on their existing markets and clients.

Slow down is also welcoming, as it will provide an opportunity to the Indian microfinance sector to rectify the underlying weaknesses. Indian microfinance market has been overheated for some time and neglected many issues before the credit market began to tighten. It is a matter of concern that not all fast growing MFIs can manage prudently the dramatic expansion of their operations. Nancy Barry, president of the Women's World Banking Network, asked conference participants: "Is a rapidly growing credit-only industry from highly leveraged MFIs stable or sustainable?"

The pause in growth seems to provide a chance to reflect on and to strengthen the underlying fundamentals for Indian microfinance. Can MFIs and their investors take advantage of this respite to tackle industry challenges i.e. rapid growth, operational risks, client protection and service offering? Will new MFI models – “game changers” - emerge to offer alternative models? Will regulators open up more options for microfinance to offer more savings services to the poor?

Also the pause in growth would definitely give us an opportunity to re-evaluate, challenge our assumptions and chart a new path forward. Indian microfinance could well emerge stronger and better positioned to tackle the future demands of the poor for financial services.

Praveer Ghodgaonkar, CEO NARMADA (Natural Resources Management And Development Association). You may reached him at praveer.sg@gmail.com

Global Financial Crisis Impact On Microfinance

Dr. Amrit Patel

It may be appreciated that MFIs & mf borrowers are not at all responsible for the current global financial crisis. MF borrowers being poor and paying almost market rate of interest on their small loans just to eke a living out of it. When Governments in developed economies have announced economic stimulus package including bailout of big banks, Governments & Central Banks of developing economies supported by international financial institutions and socially-oriented donors may consider accelerating liquidity in the form of short-term & long-term flow of funds for MFIs on reasonable & flexible terms till the crisis is over....

The

financial crisis would impact on the liquidity of MFIs; reluctance of finance providers to provide further finance or increasing rates of interest and prescribing stringent terms & conditions of granting loans; slow expansion and growth of micro-finance programs; low level of borrowers' business and diminishing sales of products; lower rate of savings and repayments; adversely affecting financial sustainability of MFIs; frustration of staff etc. Ultimately it would adversely affect fulfillment of Millennium Development Goals, particularly alleviation of poverty, access to education and health in [i] the region of South Asia, which alone accounts for the most mf borrowers, making up more than half of global demand [ii] country like India which has so far the highest number of 10.5 million mf borrowers and is expected to expand to 50 million clients by 2012, with the outstanding loan portfolio rising to \$six billion from about \$769 million now. [iii] the Bangladesh Rural Advancement Committee which has disbursed more than \$ five billion to nearly seven million poor people. In India and Bangladesh, mf has given hope to hundreds of thousands, especially women, who have built successful businesses that have changed their lives. In Africa, tightening pressures are being felt even in low-end borrowing circles and that such small but essential programs that can make a difference for Africans facing dire poverty are also feeling the effects of the global finance pinch.

The efforts of MFIs to assist poor are severely constrained by the tighter credit conditions. As credit tightens and sources of funds from corporations and socially-oriented investors dry up, mf would surely be hard hit, impacting poor people who have no other access to finance. A liquidity crisis can be the worst-case scenario with a devastating effect for MFIs and their clients. As banks and financial institutions have inadequate financial resources they cannot provide finance to MFIs to meet with the credit demand of micro-finance borrowers. Micro-finance borrowers and employees are reported to be much worried in Bangladesh in particular [one of the poorest nations in the world]. Its donor-dependent efforts in education, healthcare and family planning are at risk.

Though the cost of funds for MFIs has gone up, MFIs are simultaneously under pressure not to raise lending rates to their borrowers. This situation at some point would make them financially unsustainable. If commercial banks are affected, then the continuation of the mf program at the current level will be affected, leave alone its expansion & growth. Since commercial banks have become

much conscious about their profits, MFIs would suffer, particularly smaller outfits that cannot afford higher interest rates or cannot have access to private equity or venture capital. In these circumstances, commercial banks are already reported either resisting lending to MFIs or insisting upon increasing interest rates on loans. On the other side, many MFIs too resist borrowing thereby jeopardizing their prospects for growth and success. When borrowers experience that MFIs are slow or are reducing their lending, borrowers would also be unwilling to repay loans, which would have far more disastrous consequences. This would lead to belt-tightening and for poor people it means tightening a belt that is already tight.

MFIs Already Affected

- It is observed in the case of "SHARE" in India that it is facing reduced access to the funds due to the liquidity Crunch. Though in principle, "SHARE" has sanctions to the tune of \$155.6 million with lower interest rates, it is faced with a peculiar situation from bankers and financial institutions trying to bring in new covenants like raising interest rates exorbitantly and asking for personal guarantees from its directors. The situation is alarming since it affects its credibility and strains the trust built over a period of two decades with its clients, a development which could result in clients not making timely repayments.
- The MFIs "ASA" in Bangladesh and "SEF" in South Africa, have not yet felt the impact of the crisis. Others are, however, witnessing sharp increases in costs of funds and direct effects on clients' well-being.
- In case of Kashf Foundation in Pakistan, the impact has been the lack of liquidity in the capital markets curtailing its ability to raise additional funds this year. In March 2008, it revised its growth plans from \$500,000 to \$350,000. Over the past nine months the Foundation has actually grown at 6%. Due to constrained liquidity, the cost of funds has increased. At the same time, the energy crisis has spiked the cost of transport and electricity, creating the expectation that salaries will increase in line with inflation. A recent staff survey showed that 50% of its staff is not happy with the salary structure and expected cost of living adjustments. This will impact the loan officer's productivity with impact on portfolio quality and overall efficiency and sustainability. This is linked to increased client exits as businesses fail and its clients' ability to service loans is constrained.

- In Honduras, the global financial crisis is affecting the “ODEF” MFI’s clients and the institution itself because many of its clients live in areas dominated by units assembling plants meant for export to the U.S. This sector has been one of the first to feel the effects of the crisis. The crisis has caused a decline in incomes as well as layoffs, diminishing sales in the micro and small businesses that these workers support. This reduces borrowers’ capacity to pay off loans and has caused MFI to make adjustments to existing loans.
- In Ghana, although the effect of the crisis on the “SAT” MFI is very minimal, the “SAT” expects it will have a significantly negative effect on the availability of funding both from commercial banks & donors for its growth. In Bolivia, “Pro-Mujero” MFI has yet not been affected. But it will soon be affected seriously. It is augmenting reserves in anticipation of a possible increase in loan defaults. The clients will be affected as their sales decline and inventory costs rise. Profit margins will diminish, causing clients to reduce the size of their businesses.

Need For

- It may be appreciated that MFIs & mf borrowers are not at all responsible for the current global financial crisis. MF borrowers being poor and paying almost market rate of interest on their small loans just to eke a living out of it. When Governments in developed economies have announced economic stimulus package including bailout of big banks, Governments & Central Banks of developing economies supported by international financial institutions and socially-oriented donors may consider accelerating liquidity in the form of short-term & long-term flow of funds for MFIs on reasonable & flexible terms till the crisis is over.
- It is necessary for the Government, country’s Central Bank to act quickly to hold rising bank costs and interest rates and ensure that adequate investment flows in the credit market continue to be available to low-end borrowers.
- Regulatory & supervisory environment may need to be created so as to enable mf groups to mobilize savings for the purpose of lending. If mf groups had easy access to savings that they could on-lend, they could in essence bypass this global financial crisis.

They would not have to go to the national banks or the international commercial banks for their loan fund. They could go right to the community for sav- ings.

- “SKS” (an Indian MFI) Mf, being one of the largest MFIs in India, recently raised about \$75 million by way of private equity and it aims to more than double its client base to 8 million over the next two years. This is evidence that a well-managed MFI with a strong portfolio of borrowers can grow stronger in a crisis because it finances the needs that are so fundamental and so basic that demand for them is unaffected. If banks in consultation with MFIs could overcome the jitters, then the case for lending to MFIs for small & high-margin loans with low defaults is stronger than ever. This is actually a good time for banks to increase lending to MFIs, as their business model is of a lower risk than large loans for a few big corporate accounts, which are anyway seeing a slow-down.
- MFIs should be prudent and grow slowly during this period. They should remain in close touch with clients, enhance efficiency to counteract rising prices and improve overall compliance and monitoring and endeavor to remain liquid. MFIs should restructure and adjust loans at risk best suited to clients, eliminate consumption-based loans, and analyze new loan requests more closely in order to minimize the effects of the crisis on their clients. Similarly, finance providers too should restructure loans advanced to MFIs suitably.

About the Author

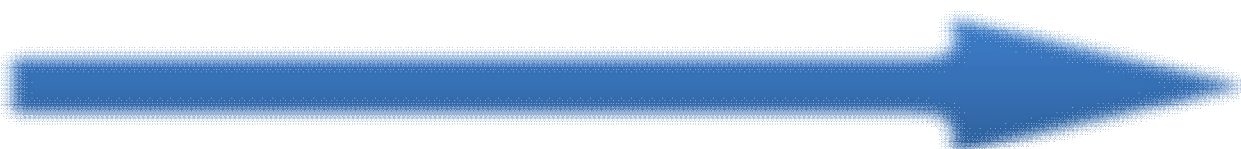
Dr Amrit Patel is PhD in Banking & Finance, has 25 years experience in Bank of Baroda & since 1995 has been senior consultant Rural/MF with projects funded by World Bank, ADB, IFAD in Azerbaijan, Tajikistan, Kazakhstan, Bangladesh, Uganda. He has contributed over 600 articles/papers in leading financial dailies, journals, Microfinance Gateway. You may reached him at amrit_rpatel@yahoo.com



Systematic Product Development Process

By, Mr. Graham A.N. Wright, from *MicroSave*

Microfinance is probably the **only** remaining “**product-driven**” business in the world. All other **industries** have long since moved from producing something and then trying to **sell** it to a “**market-driven**” approach under which they identify and meet customers’ needs on a profitable basis. In the commercial **world**, companies that have simply marketed a **product** without reference to the **customers’ requirements** have soon closed. The “**market-driven**” approach recognizes that there is more **value in retaining** .



In microfinance, the value of retaining clients is particularly clear. Typically, retained customers are the ones with extensive credit history and who are accessing larger, higher value loans; whereas new customers require induction training and can often weaken the solidarity of groups. MFIs typically break even on a customer only after the fourth or fifth loan. And yet, many MFIs suffer chronic problems with clients leaving their programmes. Careful analysis of the reasons for these “drop outs” almost invariably points to inappropriately designed products that fail to meet the needs of the MFIs’ clients. Much of this problem is driven by the attempts to “replicate” models and products from foreign cultures and lands without reference to the economic or socio-cultural environment into which they are being imported

Before Product Development : Conducting Market Research

Market research is an activity designed to understand the environment in which the MFI is operating and to identify the needs of the MFI’s clients and potential clients. Market research is usually conducted with a view to responding to the needs and opportunities by:

- Improving current marketing/promotion/outreach activities;
- Refining existing products;
- Developing new products; and
- Re-engineering delivery systems.

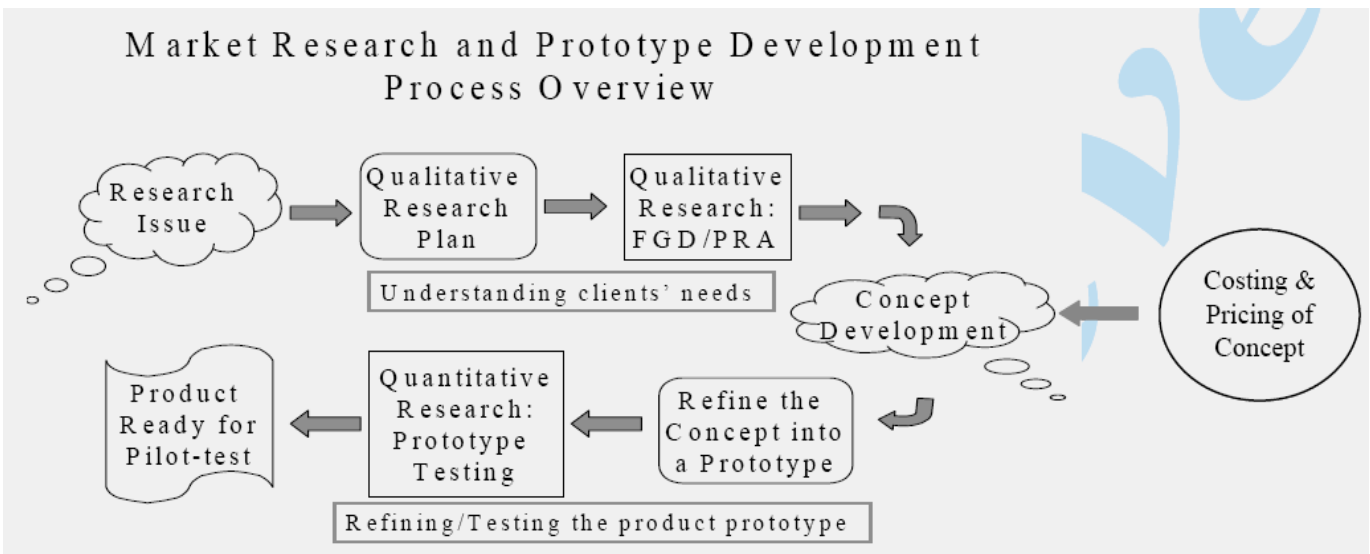
The process of market research and product development can be described as follows. The *research objective* is usually driven by initial analysis of secondary data and then focuses the market research effort on the specific issues to be examined. This in turn allows the development of a *qualitative market research plan* typically involving a vari-

ety of *qualitative research* techniques including focus group discussions and Participatory Rapid Appraisal (PRA) sessions. The results of this work then allows the product development team to *develop a product concept* which is subjected to appropriate *costing and pricing* analysis to ready it for the process of refining the *concept into a prototype*. In some cases the product prototype is subjected to *quantitative research* to provide a final check of the marketability of the prototype before investing in the *pilot test*. Once the pilot test is completed and the *Letter of Recommendation* has been completed, the product can be rolled-out and taken to scale.

Product Development and Stages

Product development is an essential activity for market-responsive MFIs. As clients and their needs change, so the market-driven, demand-led MFI must refine its existing products or develop new ones. But product development is a complex, resource-consuming activity that should not be entered into lightly. Nonetheless, those MFIs committed to being market leaders and to responding to their clients must indeed conduct product development. More client-responsive products will reduce drop-outs, attract increasing numbers of new clients and contribute substantially to the long-term sustainability of the MFI.

MicroSave promotes a systematic approach to product development designed to minimise the risks associated with what is a complex task. The approach tries to maximise the information that Microfinance Institutions (MFI) can gain at each step before proceeding to the next one – thus optimising the product for the clients in the market and the institution offering it. The whole process is classified and structured into five phases, resulting in an optimised Product Development Process (see box nr 1 on the next page).



The Product Development Process

Evaluation and Preparation

- Analyses of the institutional capacity and “readiness” to undertake product development.
- Assembling of the multi-disciplinary product development team, including a “product champion”.

Market Research

- The Research objective or issue has to be defined, secondary market data to extracted and analysed
- Analyses of institution-based information, financial information/client results from consultative groups, feed back from frontline staff, competition analysis, etc.
- Primary market research has to be planned and undertaken

Concept/Prototype Design

- Definition of initial product concept, mapping of operational logistics and processes
- Completing initial financial analysis by making cost analysis and revenue projections
- Verify legal and regulatory compliance
- On the basis of the above plus client feedback sessions, refining of the product concept into a product prototype in clear, concise, client language
- Finalizing prototype for final quantitative prototype testing or pilot testing, according to the risk/cost nature of the product

Pilot Testing

- Definiton of objectives to be measured and monitored during pilot test (primarily based on financial projections)
- Establishing parameters of pilot test (sample size, location, duration, periodic evaluation dates, etc.)
- Preparation for pilot test (test systems, procedures manuals, marketing materials, staff training, etc.)
- Monitoring and evaluation of pilot test results
- Complete recommendation letter documenting the results of the pilot test, comparison with projections, lessons learned, finalised systems/procedures manuals, etc. and the initial plans for the roll out.

Product Launch and Rollout

- Management of transfer of product prototype into mainstream operations
- Definition of objectives to be measured and monitored during roll out based on financial projections
- Establishment of rollout parameters including schedule, location, tracking, budget, process
- Preparing for rollout, finalising systems and procedure manuals, development of marketing materials, staff training .

For every single step of its Systematic Product Development Process *MicroSave* provides further skills and support, essential for success. Adapting its Market Research for Microfinance tools, *MicroSave* helps MFIs to define product benefits to customers and in communicating the product to staff. *MicroSave* has formalised this experience into a “**Product Marketing Strategy Toolkit**” and workshop. On the basis of its experience with its Action Research Partners, *MicroSave* has completed a “**Product Rollout: A Toolkit for Expanding a Tested Product Throughout the Market**” for use in the

microfinance industry. The toolkit provides practical tips and checklists to assist MFIs with all aspects of the rollout process: recommendation letters, handover, finances, human resources, systems and marketing, as well as assessment of the rollout process.

The author is Programme Director, *MicroSave* India Foundation and the write-up is drawn from various *MicroSave* Briefing Notes. You can contact him at graham@microsave.net

Arohan means... progress – journey forward – going beyond

Microfinance Focus had a look behind Arohan's success, A Kolkata (India) based microfinance institution

In the Eastern of India Microfinance is very much underrepresented, although this region provides big opportunities for the sector and lots of people in need for financial services. Kolkata based Arohan focuses its work on the neglected areas of Indian Microfinance specializing in urban areas and the eastern part of India.

The reason for its focus on the urban population is based on the fact, urban population in India increases sharply with an higher incidence of urban poverty (30 %) than rural (26 %).

The customer segment Arohan aims to serve are Micro-entrepreneurs in the trade, services & manufacturing sector; small and marginal farmers involved in agriculture and agri-allied activities; wage laborers in the farm and non-

farm sector and low income workers of the organized sector.

This segment constitutes above 70% of the population of West Bengal and is grossly under-served by the formal financial sector. In 2006 founded Arohan operates in its initial years in a 50 – 60 km radius of Kolkata, consisting about 40 % of West Bengal's population. From West Bengal's population below the poverty line, about 25 % live in this area.

Arohan is a for-profit NBFC (Non Banking Finance Company), registered under the Indian Companies Act. It is promoted by Shubhankar Sengupta, a seasoned micro-finance professional and Bellwether, India's first specialized MF investment fund. It follows a modified version of the Grameen model and seeks to operate through multiple models to reach out to different market segments.



An Interview with Mr. Shubhankar Sengupta, Managing Director , AROHAN Financial Service Pvt. Ltd .

MF Focus, Souren Ghosal: Why did you leave your cushy job at BASIX where you have been a successful and acknowledged executive?

Shubhankar Sengupta: I did not like to be counted as one in the crowd and therefore thought of coming out and start my own venture. I realized in the urban sector is enough space for such activity even in metropolitan towns.

MF Focus, Souren Ghosal: Can you give a short description about Arohan's business model?

Shubhankar Sengupta: I am more focused on funding rather than engaging in diverse activities that are generally undertaken by others. I am focused on one activity where I perhaps have achieved a high degree of customer satisfaction.

We are providing simple structured products to customers with vary little variation. In fact we are only lending to those who need only Rs 5000 - 7500 and agree to weekly repayment schedule.

MF Focus, Souren Ghosal: What about Arohan's cost of fund and the interest you are charging from your borrowers?

Shubhankar Sengupta: Usually this varies from 13% to 14% and we lends at 24% on diminishing value and also charge 4% as onetime processing fee.

MF Focus, Souren Ghosal: Are these rates comparable and competitive?

Shubhankar Sengupta: To this sector in urban areas rates charged by money lenders and others are higher as they generally charge between 30 to 35%.

MF Focus, Souren Ghosal: Do you think by upgrading technology it could be possible to reduce the cost as some others are trying in the southern India?

Shubhankar Sengupta: At present such possibility is not there as people with whom he does business are mostly unfamiliar with such technology and mostly deal in cash. However I am conscious of the need to minimize Arohan's cost and also that of borrowers.

MF Focus, Souren Ghosal: Thank you for giving me the opportunity for the interview!



Case Study : *Kalpana* , a borrower of Arohan

BACKGROUND

Kalpana was a widow with four growing children. When her husband passed away she was helpless and didn't know what to do. Her husband had left nothing except poverty. A friend suggested that she went to the dumping ground of Kolkata (*dhapa*) to earn a living. The livelihood in the *dhapa* is based on treatment of waste accumulated from across the city. Initially she got a job of segregating dry waste from wet waste and was paid for her labour. As funds were not available she could trade in recyclable elements.

AROHAN INVOLVEMENT

Kalpana never imagined that she would get loan from any company. The *dhapa* - is such a place that no finance company would want to work there. Residents of the area were ignored by all the finance companies. A group of women of that area informed Kalpana that a company called Arohan had started providing financial services in that area. Kalpana approached Arohan and was able to get a loan. With the help of Arohan, she took the first steps towards becoming a business woman.

CHANGE

Kalpana has been associated with Arohan for last three years. Currently she is on her third loan. In the first loan cycle she used the loan to run a small business - like selling glass bottles and other articles. Upon repayment she got the courage to take more risk. The second time around she invested the money to buy old bricks which she cleaned and resold to the building trade. The business progressed very well. Even her two daughters got involved in her business. Now with helping hands around the income of the family grew leaps and bound. In the third year Kalpana started to dream big.

OUTCOME

Kalpana has transformed to a confident woman. Arohan has helped them to be confident and do business hand in hand with male folks. Now Kalpana is dreaming of getting her daughter married off to a good groom and open a tea stall for her son. When asked from where would she manage the funding, she confidently knew it would be from Arohan

Arohan has chosen to work in hitherto two neglected areas of microfinance in India – urban India and eastern India. Arohan has used two key factors in determining this focus:

- The growth of microfinance in India has been skewed; the southern states account for 80% of the market size

Business Update As on 31st Jan 2009

No. of Clients – 68,613

Loan Outstanding – Rupees 310971480 [INR]

Average Loan Size- Rupees 7497 [INR]

PAR (>90 days) - 0.05

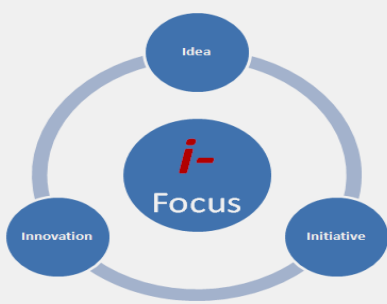
Number of clients insured - 60,000

No. of Branches- 31 No. of Staff: 241

while they comprise only 25% of the country's population.

- India is urbanizing increasingly. Urban population percentage is expected to rise from the present 26% to 40% by 2020. Urban India accounts for 60% of the GDP and will continue to rise in future. However the incidence of urban poverty (30%) is higher than rural poverty (26%). Thus they have started Arohan started its operation in and around Kolkata.

Arohan aims at reaching out to 400,000 customers by March 2012 with a portfolio size of Rs. 2000 million. Arohan is committed to highest standards of professionalism, performance, customer responsiveness, transparency, HR practices and governance. It aims to be the most admired MFIs amongst different stakeholders.



Microfinance Focus presents
I-Focus

For the Promotion of New Ideas, innovation and initiative

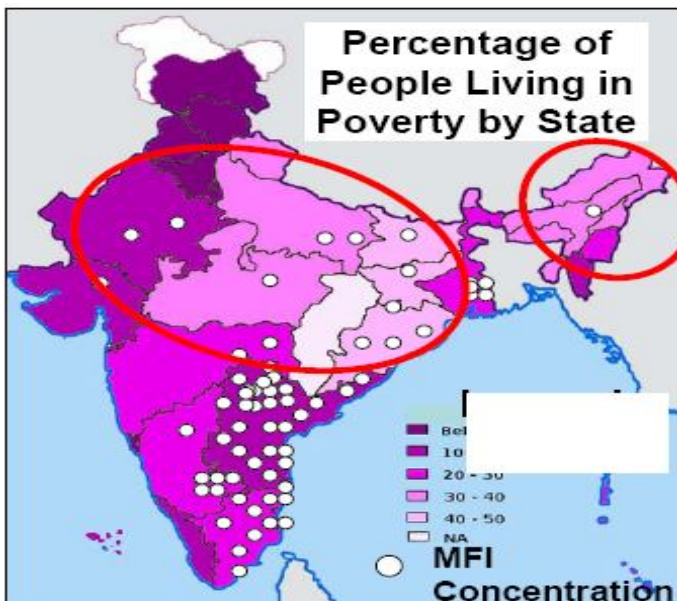
IntelleCash

Microfinance Network Programme

IntelleCash was designed and developed by Intellecap which has a rich experience base and critical insights in the microfinance sector. Based on its industry knowledge, and drawing from various success stories across multiple MFIs, Intellecap developed a has developed a microfinance delivery model that is extremely cost-efficient and facilitates quick break-even while maintaining high quality standards.

Background

- Although microfinance is a growing sector globally, India based facilitator and consulting firm Intellecap recognised several interrelated problems.
- Skewed Geographical Distribution:



MFIs in India are not distributed uniformly. The tremendous growth in access to microfinance services has occurred only in some areas. The South and especially Andhra Pradesh still dominate in terms of microfinance presence. The graph indicates very low concentration of MFIs in some of the poorest areas of India, where they are more needed.

- **The unmet demand is still huge:** Due to the unequal and insufficient distribution of MFIs there is still a high unmet demand for financial services at BOP. Some of the poorest parts of India (both rural and urban) are not covered yet by MFIs, which means not only further potential for growth but also a huge potential to improve Indian livelihoods.
- **Lack of investment ready MFIs:** As Intellecap indicates, for investors there are limited number of investment ready MFIs. Investment obstacles have their roots in entrepreneurs difficulties, to start scalable MFIs.

Approach – Mc it!

Intellecap studied efficient business models across the globe that were characterized by quick scaleup, in sectors like textile, food, education, health etc. The Franchising model had proved to be highly scalable. Lessons learnt by McDonalds and GAP's could help take microfinance services to hitherto neglected areas.

Intellecap designed the „IntelleCash Microfinance Network Program“ by taking principles of standardisation

and implementing it with contextual customization, to create suitable solutions for the microfinance sector. Intellecap is convinced about this model not only in terms of providing and maintaining quality standard, but also in its ability to meet the growth potential through rapid expansion.

Standard Model Evolution

Intellecap used its sector experience and insights to evolve the ideal, quick break-even MFI model. Choosing CASHPOR as the MFI platform, Intellecap incorporated system and process efficiencies and industry best practices to create the Intellecash model of microfinance delivery.

Manpower: Network Approach

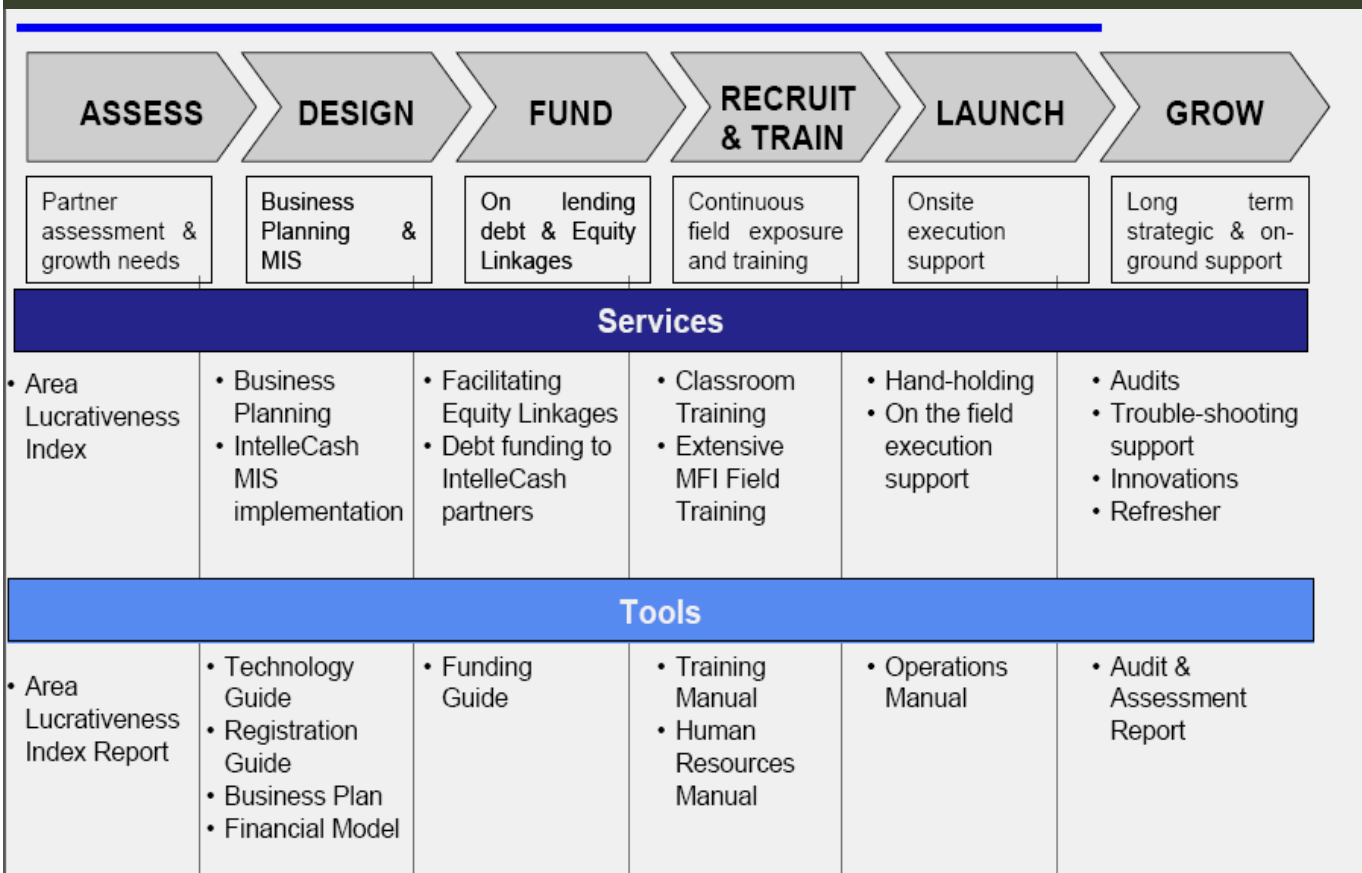
The MF network model still needs an excellent pool of qualified manpower and aims to bring people from different background together, to create

successful microfinance institutions. Intellecash seems to be convinced that a colorful mixture of people with different backgrounds performs the best: Young graduates with drive and vision are welcome in much the same manner as seasoned mainstream professionals and entrepreneurs, who want to do now something in the social space. Intellecash assists start-up entrepreneurs wanting to start their own MFIs, as well as existing MFIs who are small now but have ambitions to grow quickly, or want to diversify. Trusts, foundations and NGOs not involved in microfinance so far, but interested in taking a new path are also welcome, as long as they have the vision to achieve a large scale.

Intellecash Services

The Intellecash model is based on building its network partner MFIs and entrepreneurs in a step by step fashion. The Programme provides its network partners with all the tools, skills, and knowledge that

Intellecash model to support start-up & growth inputs



is required to create sustainable microfinance institutions within a drastically reduced gestation period. The schematic below describes the six stages through which an Intellecash network partner is taken in the process of making it a sustainable institution with large scale outreach and impact. The Intellecash Microfinance Network Programme is intensive and long term. They typically engage over a period of 3-5 years with their partners. During their engagement, they provide them with services across all the microfinance functions viz. Recruitment, Training, Area Surveys, Business Planning, MIS, Debt Funding, Equity Linkages, and On the Ground Handholding and Trouble-shooting.

A full time resource person from Intellecash engages closely with the Network Partner at the execution level, while also providing strategic advisory inputs. Other resources from Intellecash support the full time resource as and when needed.

About WEMCS(Women Empowerment & Micro Credit Services):

WEMCS aims to provide microfinance services in some of the poorest districts on India, in the state of Bihar. Promoted in 2008 by Ashwini Sinha, WEMCS has plans to operate in South and Central Bihar, and reach out to some of the most under-served communities in the country. As on January 30th, 2009, WEMCS had an outstanding portfolio of Rs. 1,000,000 with 200 women clients.

"Intellecash has a high expertise senior level team & dedicated ground level experience professionals to develop the microfinance sector through its network partners. We are confident that Intellecash will help us WEMCS reach out to the underserved rural & urban poor in Bihar through its broad network of sustainable support system for microfinance at the ground level."

Ashwini Kumar Sinha
Managing Director
Womens Empowerment & Micro Credit services, Bihar, India

About Capital Trust Limited

Capital Trust Limited started its operations in June 2008, and currently has an outstanding portfolio of Rs. 30 Million, with 5500 members. Capital Trust works in the rehabilitated urban slums of Delhi, and aims to serve 1,000,000 poor clients in the next 5 years, across multiple states in North India.

Implementation has already started

With its new model of building microfinance networks and institutions, Intellecash thinks big: By 2013 the Delhi and Mumbai based company wants to reach more than six million clients all over India. The proposed Intellecash network for 2013 shows a strong emphasis to areas that are underserved and need immediate financial intermediation.

Intellecash currently has 5 network partners across Bihar, Mumbai, Pune and the NCR region. Its aim is to have 12 network partners by the end of 2010, across various under-served geographies of India. Will the standardisation approach work – let's see. Microfinance Focus is going to continue following leads on this story!

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www.IntelleCash.com

Interview



"An NGO in Transition – The New Face of Microfinance in Africa"

An Exclusive First Person Interview with Mr. Kevin Clawson

By, Jerome Peloquin

Mr. Kevin Clawson, is the President and Founder of "Reach the Children". Former National Director of Enterprise Operations for Paychex, Inc., current CEO of Bountiful Resources, LLC. Board member of: National Kidney Foundation Upstate New York, Common Ground, Inc., Monroe County Special Olympics, and Rochester Healthcare Information Group.

This "First person," interview with Kevin Clawson clearly demonstrates the broad differences between Microfinance in Africa and the rest of the global MFI community. In Africa, everything is much more "casual," The movement is characterized by a large number of organizations who, if they have been in Africa for a long time, move to respond to the vast and dynamic poor populations in the midst of an ever changing background of local, regional, and global change. For example, Reach The Children (RTC), although it makes thousands of MF loans does not report to the MIX or anyone else. It is not officially funded by any of the common MF funding sources. One more important point. Kevin Clawson personally provided the original funding for Reach The Children.

As you will have realized by now, Reach The Children, (RTC) is not your average Microfinance Institution. As

a Global NGO with in depth operations throughout Africa, RTC has no high-priced offices in Geneva, or Paris., no prestigious "K" street address in Washington, DC. RTC's Executive offices are located in an average middle class suburb of Rochester, NY in a part of New York state hundreds of miles from New York City. What first got our attention was their overhead rate of 5%. and an annual budget of about 1 million dollars. That budget would not even pay for the executive travel expenses of many US NGO's. How can such a small low overhead organization make any difference in Africa where the need is so great and the resources so necessary to survival so scarce. RTC is not your average American MFI. Their list of accomplishments is impressive both because of their tiny overhead but also because of the way RTC is able to move fluidly between occasional hostile neighbors and deliver both Microfinance loans and fulfill its social mission.

Reach the Children, Inc. is a not-for-profit organization that provides underprivileged children opportunities for self-reliance by strengthening families and communities. We accomplish this mission through a community development approach, incorporating elements from our areas of focus: AIDS Prevention, Education, Health, Micro-Enterprise, Orphan Care, and Water & Agriculture. We strive to empower the people of Africa, so they can build a brighter tomorrow.

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The RTC strategy is that it greatly leverages every dollar spent through providing ongoing technical support and training to its local non-profit partners. All of RTC African operations have multiple local non-profit partners formed/supported and trained by RTC. Even though its actual loan portfolio is only \$300,000 USD, the impact of those micro loans on individuals and communities is magnified by intelligent direction and sector development focus. HIV prevention, health care, water safety and provision, agriculture and animal husbandry, are targeted RTC sectors.

With ongoing and sustainable operations in 15 African Countries, Kevin Clawson’s Reach The Children has been gradually shifting from philanthropy and charitable giving to Microfinance lending and sustainable community development. Ten years ago Clawson, then operations manager for a fast growing US IT service company became a millionaire when he converted his stock options and retired. Instead of buying yachts and expensive houses, he, along with his wife, founded Reach the Children. To date, RTC, as part of its micro lending operation, also provides in depth training and support to sustainable local businesses. RTC it has built over thirty schools, helped hundreds of subsistence farmers, and transported numerous communities out of abject poverty.

A devout member of the Church of Jesus Christ of Latter-day Saints, Kevin Clawson spent two years as a missionary in France. His language ability has been of great value in francophone Africa. RTC has active Microfinance and micro lending programs. At present RTC has active program partners in the following countries: Kenya, Madagascar, Mozambique, Nigeria, Ghana, Kenya, Tanzania, Sierra Leone, Swaziland, Ethiopia, Uganda, and Zambia.

I asked Kevin about RTC’s strong emphasis on business development services, (BDS) especially since his organization is spread over such a wide area. “Well, money is important,” he said, “and sometimes the money is enough, but usually without knowledge of how to apply and manage it, the money will be lost and we won’t get repaid.” “We’ve found BDS a necessary element of our micro credit program.” I then inquired about the new RTC focus on sustainable development. Clawson responded animatedly and with enthusiasm. “We have always operated on low overhead, still, with the financial crisis and with so many African people in need, donor fatigue is really hitting us hard.” “The truth is that Africans are exceptionally entrepreneurial and many are good traders and negotiators.” “The more we involve the community in profitable enterprise, the stronger it becomes and along with this new prosperity comes improved infrastructure and improved community services.” “It is our intention to build a string of business centers throughout Africa, to spread business knowledge and commercial practice wherever we have an operation. We practice aggressive Microfinance.” “We plan to build strong communities one business at a time.”

Recently, RTC has turned its attention and innovative approach in Microfinance to building homes in Ghana. It has a commitment to build 500 reasonably priced homes there. Local demand for quality housing has mushroomed in recent years putting great pressure on local housing prices and pushing home ownership out of the reach of most of the country’s poor. Their plan is to use the profits from the home sales to further RTC’s social mission. “Microfinance and BDS are the key to success here. “We will build our business centers next to the home construction project.” “ If we can get this

“Opportunity for enormous growth exists in many parts of Africa.” Much of Africa is like a smoldering ember of economic prosperity just waiting for kindling to ignite it.”

ambitious effort underway, we can then focus on really affordable housing with built in micro mortgages for the very poorest.” “First, we need to solve the immediate problem of funding.” “We will use prefabricated panels to build quality houses, train contractors to US standards and create construction and maintenance crafts where none has previously existed..”

With his characteristic optimism and efficient use of funds, Clawson is in the process of raising a separate African SME Development Fund to create more SME’s. Clawson said, “The world has changed and we have to reflect that change in the way we operate.” “Africa is demonstrating great growth potential.” “GDP is on the rise here and it will continue long after most of us are gone. It is a land of great promise.” “It is our plan to seed a merchant and craft level class within the greater African economy.” “Opportunity for enormous growth exists in many parts of Africa.” Much of Africa is like a smoldering ember of economic prosperity just waiting for kindling to ignite it.”

If RTC and Kevin Clawson can leverage their imagination, financing, and organizational model, they may become the new image of African Microfinance.

Jerome J. Peloquin: Managing Editor, US

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Gates Foundation Provides \$700,000 to Document Success of Microcredit

The [Microcredit Summit Campaign](#) was the recipient of a \$700,000 grant from the Bill and Melinda Gates Foundation. The grant will help the Campaign measure progress toward its goal of ensuring that 100 million families rise above the \$1 a day threshold by 2015.

As many as two billion people living on \$1 a day or less do not have access to financial services that can help them increase their financial security and improve their lives. Without services like loans, savings, or insurance, it is difficult for families to save and pay for necessities like educational fees, medical bills, household improvements or emergencies.

The Movement "Above \$1 a day Project" was created in 2006, after the Campaign set new goals for 2015 at the Global Microcredit Summit in Halifax, Canada, to effectively document, through standardized methodologies, the number of microfinance clients who are pulling themselves out of extreme poverty. One methodology includes training microfinance institutions (MFIs) in poor countries with "poverty scorecards," which measure borrowers' levels of poverty through questions such as what the client's house is made of, how many of their children attend school, and whether anyone in the household works for a daily wage. So far, the Campaign has trained 25 institutions from seven countries in Asia on the poverty scorecard.

The Microcredit Summit Campaign annually documents how many people around the world have received a micro-loan. The organization's last report found that in 2006, microfinance institutions reached 133 million clients around the world, 93 million of whom were among the world's poorest people when they took out their first loan.

Jan 13, 2009, News Report
<http://www.govtech.com/gt/articles/583748>

development bank KfW is expected to provide refinancing to more than 100 MFIs in up to 40 countries. It will support lending to as many as 60 million low-income borrowers in many of the world's poorest countries. The Microfinance Enhancement Facility is a short-to-medium term facility of up to US\$500 million with initial contributions of US\$150 million from IFC and US\$130 million from KfW. The facility will be managed by BlueOrchard Finance, responsibility Social Investments AG, and Cyrano Management. Credit Suisse has been appointed custodian and administrative agent.

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Source: The World Bank

Call for EU legislation to encourage microcredit schemes

The Economics Committee of the European Parliament is calling for the Commission (EU's cabinet government) to propose legislation on microcredit schemes in Europe, aiming to remove problems caused by competition and money-laundering rules, to allow for more EU co-funding, to introduce a harmonized regulatory framework for microcredit providers and to raise their profile. In a report drawn up by Zsolt László Becsey (Conservative, Hungary), the Economic and Monetary Affairs Committee makes a formal call for the Commission to present a legislative proposal to bring together different measures in a framework to encourage microcredit's development in Europe.

EU-wide framework on supervision and regulation

There also needs to be an EU-wide regulatory framework for non-bank providers of microcredit (banks are already covered by existing rules), defining them as non-deposit takers, with the ability to conduct credit only activities and to on-lend. There should be harmonised, risk-based rules on authorisation and supervision. The report has to be approved now at the plenary session and needs the support of an absolute majority of Members of the European Parliament, to call on the Commission to present a legislative proposal. The plenary vote is scheduled for February.

Source : Press Service, European Parliament, 20-01-2009

IFC, KfW Launch US\$500 Mln Refinance Facility for MFIs

World Bank Group President Robert B. Zoellick and German Development Minister Heidemarie Wieczorek-Zeul have launched a US\$500 million facility that will support MFIs. It will provide refinancing facilities to MFIs facing difficulties as a result of the global financial crisis. The Microfinance Enhancement Facility, created by International Finance Corporation (IFC) and German de-

ACCION New York and ACCION USA Merge Operations

After more than five years of joint work, microfinance organizations ACCION USA and ACCION New York have announced that they have combined operations. Through combined technology, back-office functions, and fundraising efforts, the unified organization expects to provide microloans with increased efficiency and reach. The new organization will be bear the ACCION USA brand, to more effectively contribute to job creation, increased household incomes, and the availability of capital across the U.S. ACCION USA will now manage a loan portfolio of over US\$18 million, disbursed to over 3,000 active clients through offices in Boston, New York City, Atlanta, Miami, and Puerto Rico, and nationally through an online lending platform. Historically, the organizations have loaned over US\$110 million to over 11,000 clients.

ACCION USA loan products will include business term loans from US\$700 to US\$50,000 (with an average of US\$7,500), start-up business loans, and loans to help individuals establish a credit history. The organization will also continue to utilize financial education as a path to fiscal independence, offering community workshops and free online resources to assist small business owners.

Read more : [click](#) | Source: PRWeb

First MFI Starts Operations in Liberia

AccessBank Liberia has become the first MFI to receive a banking license in Liberia. It had received a preliminary banking license from Central Bank of Liberia in July 2008. Access Bank Liberia is the result of a two-year partnership between International Finance Corporation (IFC) and the Government of Liberia. IFC expects to continue working with Central Bank of Liberia to strengthen its capacity to supervise microfinance lending.

Read More : [click](#)
Source: IFC

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Fitch Report Sees Microfinance Tested By Crisis

Fitch Ratings has reported that contrary to some industry views, it will be difficult for the microfinance sector to remain immune from the global financial crisis. It expects a funding or liquidity impact, which will increase the level of refinancing risks for MFIs, particularly for non-deposit taking MFIs dependent on local or international wholesale funding. Fitch also foresees an impact on financial performance affected by lower lending volumes, increased costs of funding, tighter net interest margins, higher impairment charges and higher volatility in foreign exchange losses/gains.

In a special report, Fitch states that the current crisis is exposing some MFIs to the convergence risks of greater integration of microfinance within the banking sector. "Many MFIs will revisit their strategy of commercialization and transformation," says Mark Young, Managing Director in Fitch's Financial Institutions Group in London. Sandra Hamilton, the Group's Associate Director said, "Slower growth will allow some MFIs to tighten lending and liquidity management procedures in particular, and build capacity in general."

Read More : [Click](#) | Source: Easybourse.com

South Korea Provides US\$73Mln in Microcredit, Loan Guarantees

The South Korean government has pledged to provide loans and credit guarantees to the self-employed, including legitimate street vendors. The effort is intended to help people in the lower credit and income bracket overcome financial hardship. The government is also planning to cater to lower-income individuals who would otherwise have no other source of income. The initiative is in response to the recent economic downturn which is affecting the entrepreneurs who cannot borrow money from banks due to their bad credit status. Shop owners will be able to borrow up to 5 million won (US\$3,710) while street vendors will be allowed to borrow a maximum of 3 million won (US\$2,200). They will be required to pay 1% of the principal as guarantee fees. The loans will bear an annual interest of 2%. A total of 100 billion won (US\$73 million) is expected to be earmarked for this measure.

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Source: JoongAng Daily

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