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The Commercialization Debate

-A Contextual Study of Microfinance in India

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Abbreviations and Concepts

BPL: Below Poverty Line

CGAP: Consultative Group to Assist the Poor

One Crore: 10 million

Exchange Rate 20091005: 1 Indian Rupee = 0.0209886 USD, 1 Indian Rupee = 0.147707 SEK¹

IPO: Initial Public Offering (of stock for mainstream shareholders)

LAB: Local Area Bank

One Lakh: One Hundred Thousand

MFI: Micro Financial Institution

NABARD: National Bank for Agriculture and Rural Development

NBFC: Non-Banking Financial Institution

NGO: Non Governmental Organization

NGO-MFI: Non Governmental Organization- Microfinance Institution

NPO: Not for Profit Organization

RBI: Reserve Bank of India

SECTION 25: A Non-profit Company with slightly more freedom than an NGO to employ staff

SIDBI: Small Industries Development Bank of India

WHO: World Health Organization

¹ www.xe.com, The world's favorite currency site, cited [20091005]

PART ONE:

BACKGROUND & THEORY

CH 1. The Evolution of Microfinance

CH 2. Theoretical Methodology

CH 3. Literature Review



1. The Evolution of Microfinance

This chapter introduces the field of microfinance and provides an overview of what we like to call the “evolution of microfinance.” The chapter highlights several changes that have occurred within the field, and then focuses on one of these, sustainability. The reader is introduced to the existing schools of research within this area and a gap in the literature is identified. An introduction to microfinance in India is also provided, since thanks to SIDA and the Business Faculty at Umeå University, our field research is conducted there. The gap in the literature then leads onto the formulation of our research question and a description of the purpose to be fulfilled through this study.

1.1 Major Shifts within the Field of Microfinance

As both a concept and a tool, microfinance has evolved from the genre of micro credit to small micro enterprise development that deals with micro-level loans to micro enterprises or micro entrepreneurs. Microfinance, however, encompasses a much wider array of financial services for a larger population spread. Microfinance institutions today provide services ranging from savings, income generating loans and insurance services to individuals that generally have no collateral.

The incentive behind microfinance lies in helping the poor, providing them an opportunity to raise their standards of living rather than from the motivation to only make money². Government regulation of banks and financial institutions in the past did little to provide economic assistance to the indigent. This was due to the large costs associated with reaching the poor who tended to be the most geographically dispersed. According to standard credit norms these impoverished would be classified as credit risks for both government and private funding.

Three distinct shifts can be observed within the field of microfinance. Since the deregulation of financial markets that began in the three last decades, a shift took place away from the goodwill funded by donations and subsidies and towards profit-driven financing. Subsequently there was a shift from micro credit to micro financial services and from investment in micro enterprises to household money management.³ Hence, today microfinance covers three main areas: micro-credit, micro-savings and micro-insurance products.⁴

Micro-credit is the most basic of all financial services that MFIs provide and involves supplying small loans to those disenfranchised that would normally seem un-bankable. Micro-saving encourages clients (and sometimes forces them to ensure a form of collateral) to deposit money either for high frequency saving for the short term or for low frequency saving for the long term. Finally, Micro-insurance protects low income households through the pooling of risk in exchange for regular monetary payments. This policy functions as an ordinary insurance policy. Until recently, these two services of micro-savings and

² [Microfinance : evolution, achievements and challenges / edited by Malcolm Harper](#), London : ITDG ; 2003, pp 3

³ [Microfinance : evolution, achievements and challenges / edited by Malcolm Harper](#), London : ITDG ; 2003, pp 3

⁴ Pg3. K Rossel-Cambier, “Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View”, Université Libre de Bruxelles-Solvay Business School-CEB, Working Paper No 08/004, (2008)

micro insurance were thought to have no demand by the poor. The success of more sophisticated financial services for the disenfranchised has proven this to be false.⁵

1.2 Financial Sustainability

The shift from heavily subsidized institutions to profitable businesses is a hotly debated topic since it represents a radical shift from goodwill to profit generating alliances. The change is still in progress because many MFI's striving to make profits are not able to survive without subsidies⁶.

The implications of this change have prompted a plethora of research in the area arguing for financial sustainability.⁷ By financial sustainability (used interchangeably with financial self-sufficiency), we suggest that the institution should be fully able to cover costs through internal revenue, i.e. no dependence on outside funding. Morduch et al. (2009) define financial self-sufficiency by quoting the definition given by MicroBanking Bulletin (2005, p.57), i.e. "the financial self-sufficiency ratio is adjusted financial revenue divided by the sum of adjusted financial expenses, adjusted net loan loss provision expenses, and adjusted operating expenses. It indicates the institution's ability to operate without ongoing subsidy, including soft loans and grants"⁸.

Morduch et al. (2009) compare the extremely high interest rates and immense profits earned by Compartamos after their public offering and the reaction of Muhamad Yunus who according to the article feels that the "high interest rates and profits were unconscionable, extracted from Mexico's poorest citizens." The article explains the points of convergence between the two views on microfinance – one demanding a social focus and the other arguing for the commercialization (high profits but also a high outreach) of microfinance. Both agree that there is a large demand for microfinance and that access to microfinance could potentially help millions of poor. In the study, Murdoch et al. use a dataset of all the large MFIs in the world to answer questions about the role of commercialization. Their conclusions show that "investors seeking pure profits" are not very interested in the organizations that serve the poorer customers. They also infer that the future of microfinance will unlikely follow a single path, because even though commercial investment will be necessary for the continued growth of microfinance, it is the institutions with strong social missions (many using subsidies) that are best at serving the poorest⁹.

For the purpose of our thesis, the implications of this shift will be part of the focus. Microfinancial services and households affected by it are interconnected topics. The focal point in this thesis relates to the ongoing sustainability debate. The key question as posed by Robert Cull et al. is, "Are the social and economic impacts apt to be large enough to justify and ensure continuing support?"¹⁰ By support he means grants and donations.

⁵ Pg 4. K Rossel-Cambier, "Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View", Université Libre de Bruxelles-Solvay Business School-CEB, Working Paper No 08/004, (2008)

⁶ Pg 9. K Rossel-Cambier, "Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View", Université Libre de Bruxelles-Solvay Business School-CEB, Working Paper No 08/004, (2008)

⁷ See: Robinson, Marguerite S. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*, Volume I, The World Bank: Washington, DC or Morduch, Jonathan, 1999, The microfinance promise, *Journal of Economic Literature* 37, 1569–1614.

⁸ Cull, R., Demirguc-Kunt, A., and Morduch, J., (2009), "Microfinance Meets the Market", *Journal of Economic Perspectives*, Vol. 23, No. 1, pages 167-192

⁹ Cull, R., Demirguc-Kunt, A., and Morduch, J., (2009), "Microfinance Meets the Market", *Journal of Economic Perspectives*, Vol. 23, No. 1, pages 167-192

¹⁰ One of the two frontier questions posed in conclusion to the study: Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, "Microfinance Meets the Market", *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

The trade-offs related with a growing focus on sustainability have been mentioned by various authors, and point towards a dilution of the original welfare objective of the founders of microfinance. A focus on sustainability leads to a compromise in the ability to reach out to the ones in greatest need of financial assistance, hence a change in the original mission of microfinance which is to serve the poor. The researchers find it interesting to explore what missions actually lay behind MFIs, believing that this could contribute to the sustainability issue rather than the reverse. This implies not taking for granted that all MFIs merely have a social mission, i.e. to help alleviate poverty. Another important distinction to mention resides between the organizations having a for-profit or a not-for-profit status. According to a study by Gonzalez and Rosenberg (2006) which utilized a sample of over 1500 institutions, 91 percent of these were small institutions collectively serving about a quarter of the total borrowers. The remaining three-quarters of the borrowers are served by just 145 large organizations¹¹. Thus, the larger organizations are more able to serve the needs of the poor.

1.3 A Need for a Deeper Contextual Study

Available literature on microfinance is increasingly focused on the need for self-sufficiency. However, little research has been conducted regarding the goals of specific microfinance institutions. A significant gap exists regarding the (country-specific) context MFIs operate in and the needs of the poor as seen from their own perspective¹². Most research has been done in the form of financial data collected by institutions and subjected to statistical analysis.

The researchers in this study traced the sources that provided qualitative data for studies as the one mentioned above (Morduch et.al, 2009). The objective was to uncover what lay behind the numbers that had been reported.

The case studies that exist are of an exploratory nature. They frequently fail to incorporate the perspective of the borrowers along with that of the organization and field agents who act as a liaison between lenders and borrowers. There is a need to understand the context of operations from a broader perspective. It is important to take into consideration the effects of cultural, social, political, and legal structures that distinguish countries. Unfortunately these have often been meshed together in reviews of microfinance. These studies of microfinance institutions operating within poorer nations do not take into account the differences between the countries of their studies. Such studies often take a global approach. We argue for the need to account for the local variations that exist within this global depiction of microfinance.

1.3.1 Selection of Case: India

India was chosen as a destination for our field study due to the array of cultural, geographic, religious, and regulatory conditions that this large country encompasses. A quarter of the population of the estimated 1.1 billion people is considered to be living in extreme poverty¹³. According to Schreiner

¹¹ Gonzalez, A., and Rosenberg, R., (2006), "The state of microfinance – Outreach, Profitability, and Poverty, Findings from a database of 2600 Microfinance Institutions." Presentation at World Bank Conference on Access to Finance, May 30th, 2006

¹² Otero, M. (1999) 'Bringing Development Back into Microfinance', *Journal of Microfinance* 1 (1): 8-19.

¹³ Bindu A., Bastavee B., Rupalee R., Aparna B., (2004) A Blueprint for the Delivery of Comprehensive Financial Services to the Poor in India, Institute for Financial Management and Research (Centre for Micro Finance Working Paper Series)

(2006), no country in the world has more poor people than India with an estimated 200-900 million disenfranchised. He goes on to refer to Deaton and Kozel (2005), saying that there is extensive literature on the subject but little agreement over how to measure the poverty line. He mentions some examples of measurement for example the \$1 per person per day which in 2003. This would be an equivalent of Rs.14.91 at purchasing power parity and official all-India lines which put the rural line at Rs.11.51 and the urban at 16.79.¹⁴

With these statistics at hand and due to one of the researchers (Maira) speaks Hindi; India was an obvious choice for the field study. The researchers believed that they would have the ideal opportunity to access diversity in order to fulfill the purpose of the study.

1.3.2 Development of Research Problem

Researchers suggest that sustainability is the key to survival. Statistics indicate that the better-known micro financial institutions in India harvest returns on the money invested in them.¹⁵ However, research also suggests that there are still a large number of disenfranchised people who have not been reached by these organizations.¹⁶

Despite widespread growth of microfinance institutions, informal money lenders and not-for-profit organizations focusing on the poor still exist. The view on sustainability or submergence is far too widespread and a greater focus needs to be placed on those that cannot be reached by for-profit models. Many have no access to formal institutions due to bureaucratic red tape, lack of education, joblessness or poverty, and thus rely on other means of financial services.

Theoretical evidence further developed in the literature review suggests a clear need for non-profit-microfinance services even if these are financed by grants and subsidies to maintain the welfare goal of microfinance. If the subsidies fail to make an impact in poverty reduction, their continuance is justifiably questionable. In order to understand how micro financial institutions operate, it is not only important to collect financial data but to also understand the environment that they operate in, in particular, to become familiar with the legal and regulatory functions of the country being studied. Feedback from the success or failure of that mission is necessary.

Our proposed research question strives to create a qualitative framework to explain the operations of micro financial institutions operating in India. Succinctly stated: *What is the mission and context of operations and the impact of MFIs in India?*

1.3.3 Purpose

The purpose of this study is to understand the mission that guides MFIs and to generate substantive theory regarding the context in which Indian MFIs operate. Within this context, we wish to understand the

¹⁴ Schreiner, Mark. (October 19, 2006). Is One Simple Poverty Scorecard Enough for India?, Senior Scholar at Center for Social Development and Director of Microfinance Risk Management

¹⁵Pg 27, Schreiner, Mark, A Framework for the Analysis of the Performance and Sustainability of Subsidized Microfinance Organizations with Application to Bancosol of Bolivia and Grameen Bank of Bangladesh, Department of Agricultural Economics-Ohio State University, 1998, pp 1-138

¹⁶ Hasan, M E and Iglebaek M (2004) *Microfinance with un-reached people in the rural area: Experience and learning*. Paper Presented in Asia Pacific Region Microcredit Summit Meeting of Councils, 18 February, Dhaka

political and socio-economic circumstances that micro financial institutions in India are operating under. Through this framework and by interviewing employees as well as clients, we hope to better understand the impact made on people that are targeted by these institutions. We also wish to provide empirical evidence that allows verification for this impact. Furthermore, this study will hopefully allow us to conclude whether subsidies to these organizations are justifiable, or if the impact of demand and supply left on its own is the best way to the alleviation of poverty.

Under this primary purpose we also wish to identify three sub-objectives:

- Develop a framework for understanding the main mission which micro financial institutions operate under
- Explore the external and internal policies (regulations, operations, outreach, targeting) facing these organizations
- Explore the impact of MFIs on borrowers as seen from both the MFIs' and the borrowers' perspectives

In order to answer the sub purposes, four broad concepts have been developed after a careful review of the existing literature. These four concepts will serve as preliminary guidelines in our data collection. The idea is to be able to expand upon these concepts and add questions of relevance as new ideas within these concepts emerge during the data collection process. There is no single interview guide as it was expanded upon by the researchers while the data collection progressed. Interviewing various types of organizations also meant that the questions had to be quickly formulated. (See Appendix D2 for concepts)

1.4 Disposition

This section provides a conceptualization of the entire study, showing how each phase leads to the next. Between chapter six and seven is the re-evaluation of theory at hand. Since we use a grounded theory approach which will be discussed in more detail in the theoretical methodology chapter, the aim is to generate new substantive theory. This substantive theory is presented in the conclusions. The idea is to give the reader a picture of how the study progressed as well as to explain how the different chapters of the thesis relate to one another.

The first chapter provides an overview and background for the study, leading to the research question and followed by the disposition of the continued thesis. The second chapter describes the methodology that the study is based upon and discusses the implications of this method for the study. Following this chapter is the literature review chapter where existing theory is presented with an emphasis on subsidization, the impact of outreach and the differing goals of MFIs. This chapter ends with four main concepts. Related questions have been extracted as points of reference for data collection.

Chapter four describes the practical aspects related to the study. This chapter discusses the collection of data for the literature review, and also the data collection that took place in the field. This chapter brings up practical issues that were faced during the time and how they were dealt with. Following this chapter is chapter five, called 'Contextual Setting'. The 'Contextual Setting' chapter deals with the material and information that became known to the researchers during the data collection and analysis but not directly

related to the findings within organizations. The purpose of this chapter is to provide an overview of the ambiance in which the field study was done. This chapter has been compiled using data collected from official government websites to fully describe the legal setting and to provide an introduction to the legal forms of the organizations that have been interviewed. It can be seen as related to part of the second sub-purpose of the thesis which is to explore the external circumstances (regulations) that these organizations operate under.

Chapter six deals with the data collected from the organizations and presents this in the form of three tiers, from the managements', field workers' and the clients' perspectives,

Chapter seven deals with the analysis of the data and this is followed by chapter eight which presents the conclusions to the study. Chapter nine discusses the issues of bias and quality control in qualitative studies and chapter ten provides a range of suggestions for further research.

2. Theoretical Methodology

This chapter starts with a brief introduction concerning the choice of subject and then describes our preconceptions and the perspective of the thesis. The chapter then explains our views on research methods used for the purpose of this study. Arguments for the selected strategies are provided in addition to an explanation of the practical implications that the chosen method poses for the field study.

2.1 Choice of Subject

The choice of subject evolved from a mutual interest by both researchers concerning relevant developmental issues. Microfinance was an area both researchers understood as a development technique of which they had little practical knowledge. Mishka vom Dorp was exposed to the concept during his visit to India in 2006 and Maira Babri had spent a considerable part of her life living in Pakistan where informal rotating credit and saving associations were part of daily life.

A mutual interest in understanding a system that claims to alleviate poverty and an opportunity to apply for a SIDA (Swedish International Development Agency) scholarship allowing a minor field study in India spurred the idea of studying micro financial institutions of that country. A thorough review of the existing literature allowed the formulation of the research question that served as a starting point for the field study.

2.1.1 Authors' Preconceptions

As mentioned above, before beginning to write this paper, both authors had some exposure to microfinance. Although our early exposure to Microfinance was sufficient to familiarize us with the concept, we sought to remain neutral during the research process. We initially believed that microfinance should be used as a means for poverty alleviation and were later fascinated by the notion that money could be made at the same time.

We both were graduate students at Umeå School of Business. Microfinance represented the opportunity to combine socially responsible investment with a capital return and this combination was noted as something of a "holy grail" of business. Our past experiences combined with our education made the field study in India a natural choice.

An interesting difference between our preconceptions resided in the area of subsidization vs. non-subsidization. Mishka was inherently against MFIs functioning on the basis of surviving for survival sake. Although he believed subsidies were sometimes needed, he was essentially against a reliance on such methods. This belief stemmed from significant attention given to examples of “good money being thrown at bad ideas”. Maira on the other hand had somewhat contradicting beliefs. She saw that subsidization was occasionally necessary and microfinance might have been one of those. She felt that attention should be focused more on the motivation behind microfinance (and the accomplishment of those motives) rather than on the method of finance.

We believe that these contradicting beliefs have influenced our thesis in such a way that new ideas emerged that would not have arisen in absence of this dichotomy. However, the divergent views did initially result in a delay of the area of study. The debate concerning financial sustainability was of great interest to us. After discussion (and often arguments), we were able to agree on the idea that conflicting views of a subject area did not necessarily mean a bad start since we both understood our biases and with that were able to hold the other in check. This allowed us to focus on an area we both saw as exciting with the MFI objective focused on “sustainability” and “reaching the poorest” as the principal objective.

If we as researchers had already found divergent points of view was it possible that different MFIs also had conflicting positions? Were there differences in mission between non-profit and for-profit MFIs? How would their differences ultimately affect their outreach?

Our conflicting beliefs also lead to a rather critical approach to the field study that proved to be dynamic and holistic, covering more aspects than would have without such a conflict. Had this conflict not existed the study might have been shaped more by preconceptions than was the case. The questions posed allowed us to analyze the sustainability issue. We were pleased to see that the results permitted a broader understanding for both and lead to agreement over the conclusions.

2.1.2 Perspective of the Thesis

Initial access to data was basically on the organizational level. Our analysis was in the form of holistic issues derived after an exposure to MFIs, their employees as well as their clients. The interviews were conducted with management, employees, field officers and the end users of the financial services. It could be argued that the study took an inside-perspective of the actors in Indian microfinance.

However, the aim was to understand the full scope of micro financial organizations as well as to be able to perform a comparative analysis on several levels. First, a comparative analysis was done within the organizations, comparing management, field worker, and client perspectives. Secondly, the next level of analysis involved a comparison across organizations, comparing them with each other in terms of their legal form, their missions, their operating models and other relevant concepts that arose in the period of data collection and analysis.

2.2 Scientific Approach

Conducting research requires the use of methodologies. This would justify not only our perspectives but also the collection and analysis of the data.

There are two central views on what constitutes knowledge. The positivist, epistemological approach is grounded in the natural sciences and encourages the use of objective measures. The second view is that of hermeneutics¹⁷. Where positivism is usually associated with collection of data to test existing theories and develop general scientific laws, hermeneutics or social constructivism, on the other hand, provides a contrasting view, suggesting that the world is a product of social construction, and hence contexts and settings are important to understanding how the world works. The hermeneutic researcher must observe more with his/her direct senses to understand these contexts and often becomes more subjectively involved in the study.¹⁸

The purpose of this study is to understand the mission, impact and context in which micro financial institutions operate in India. This study was undertaken in the context of economic and political and the social regulations in India. We expect culture and communications to play a large role in the work of micro financial institutions operating in India. For the purpose of this study we apply a hermeneutic approach with a social constructivist view. Social constructivists argue that the world as we see it is the result of conscious or unconscious choices made by social actors rather than an act of divinity or natural laws¹⁹.

Taking on a social constructivist view allows us to interpret our research in the setting and context where it is being conducted. Although micro financial institutions exist all over the world and some might be similar in their operations, our aim was to understand those structures that contribute to the Indian context. These could help us understand how MFIs operate within the microfinance sector and also what types of obstacles they face.

Due to the nature of the study, mainly that comprising of field visits, spending time with the interviewees and focusing on the perspectives of service providing agencies, the people handling transactions and the end users of the financial services, it can be viewed through an ethnographic lens. Vaan Maanen (2006) describes ethnography as having a “sort of documentary status,” as the researchers actually involve themselves into the lives of those being studied²⁰. Hallbere (1998) explains that “grounded theory” stems from a methodological stance that stresses the phenomena relating to the social world studied from the perspective of the actors and in their naturally occurring environment, thereby utilizing an inside-perspective²¹.

Sangasubana (2009) mentions some of the reasons why ethnography is chosen as a method for a research project. Among other points he mentions that, “It focuses on working with others rather than treating them as objects. You often have exclusive domain or sole responsibility in the chosen setting or site as it allows you to get an insider’s view of reality. It can also provide deep insightful data useful to study marginalized groups of people closed to other forms of research and it allows you to collect data in a

¹⁷ Bryman A., & Bell E., (2003), *Business Research Methods*, Oxford: Oxford University Press, p 14, 0-19-928498-9

¹⁸ Bryman A., & Bell E., (2003), *Business Research Methods*, Oxford: Oxford University Press, p 14, 0-19-928498-9 p 15-19

¹⁹ Johansson Lindfors, Maj-Britt, (1993), *Att Utveckla Kunskap*, Lund Studentlitteratur, p. 57, ISBN 91-4432851-6

²⁰ John Van Maanen, (2006), “Ethnography then and now”, *Qualitative Research in Organizations and Management: An International Journal*, Vol. 1, No. 1, 2006

²¹ Lillemor Hallbere, 1998, “ En Kvalitativ Metod; influerad av grounded theory traditionen”, Nr. 2, Göteborgs Universitet, Psykologiska Institutionen

realistic or naturalistic setting in which people act naturally, focusing on both verbal and nonverbal behaviors²²”.

The aim here is to understand the holistic nature of micro financial operations. In order to understand people’s perspectives it is important to listen to what they have to say and to observe the setting and environment they speak about. We deemed it important to visit villages and slums where micro financial companies operated. This we hoped would offer an understanding of the borrowers living there who utilized those services. We used an ethnographic stance to data collection while utilizing the tools suggested by the pioneers of “grounded theory.”

Grounded theory was first presented by two sociologists, Barney Glaser and Anselm Strauss (1967) and they described it as a “guideline for doing research” with the aim being to generate theory based on empirical findings. Grounded theory advocates the use of multiple data sources as well as various data collection methods relating to the same phenomenon. Some examples include in-depth interviews, participant observations as well as field notes. Data is collected until a point of “theoretical saturation” has been reached and (according to the researchers) further interviews do not lead to any new data²³.

2.2.1 Qualitative Strategy

Research strategy normally affects how the study is conducted, which data collection methods are used, how the data is presented and how it is analyzed. The two principal research strategies are quantitative and qualitative.

Quantitative studies, as the name suggests, focus on a quantified approach, gathering data in forms that can be classified and subjected to statistical analysis. The aim could be data comparison or to determine if relationships exist between causal and independent variables. Quantitative methods are often applied for the testing of theories, using a deductive approach, deducing theory by refuting or failing to refute existing scientific laws.²⁴

Qualitative studies, on the other hand, focus on depth and contexts and data is usually collected in the form of interviews, literature reviews or close observations. The aim is often to understand phenomena and explain why things are the way they are. Qualitative studies are often coupled with an inductive approach to theory, focusing on the emergence of theory as a result of ongoing research.²⁵

Microfinance viewed through the lens of market dynamics can be seen as a response to market failures which excluded the poor from basic and essential financial services. However, Servet (2005) estimates that only 10% of MFI’s are able to survive without subsidies.²⁶ Critics of microfinance have argued that MFI’s have mainly focused on people who have been unable to access financial markets and not those

²² Nisararana Sangasubana (2009), How to Conduct Ethnographic Research, The Weekly Qualitative Report, Vol. 2 No. 36, September 7, 2009 208-214

²³ Lillemor Hallbere, 1998, “ En Kvalitativ Metod; influerad av grounded theory traditionen”, Nr. 2, Göteborgs Universitet, Psykologiska Institutionen

²⁴ Bryman A., & Bell E., (2003), *Business Research Methods*, Oxford: Oxford University Press, p 9-14, 0-19-928498-9

²⁵ Bryman A., & Bell E., (2003), *Business Research Methods*, Oxford: Oxford University Press, p 14, 0-19-928498-9

²⁶ Pg 9. K Rossel-Cambier, “Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View”, Université Libre de Bruxelles-Solvay Business School-CEB, Working Paper No 08/004, (2008)

that are inherently poor²⁷. Many have argued that giving the poor access to financial markets is not that necessary since an estimated 4 out of 5 people are unable to access funds²⁸. The increasing focus on sustainability may also have a negative impact on those that MFI's are meant to help due to a focus on cutting costs and increasing profit which inevitably leads to higher interest rates and a higher debt burden. The main goal of MFI's should be poverty alleviation. However, the United Nations Development Program has suggested that only a fourth of the funded micro-lending institutions are considered successful²⁹.

Thus there is a need to understand what goes on inside these institutions. Statistics alone are not sufficient to understand how these MFIs operate and what challenges they face. Qualitative studies in the area are few, and a contextual study providing a holistic view of micro financial operations in India has not been conducted.

For the purpose of this study a qualitative research strategy was undertaken as we immersed ourselves into the organization settings as well as field operations. A field study implies becoming one with the surroundings and context in which the data is being collected. The building of a relationship with the interviewees is an important aspect to appreciating their views and the contexts in which they occur³⁰.

We hoped to provide empirical evidence in relevance to the subsidization debate mentioned earlier in this paper. The three tiers on which the data had been collected meant that those with varying backgrounds would be interviewed. This required a need for flexibility and innovativeness regarding the interview guides, in particular the grounded theory methodology.

2.2.2 Theoretical Sampling

We had chosen to conduct interviews that were of theoretical relevance to the purpose of the study. By theoretical relevance we meant the choice of people to interview had been made to “fully develop as many properties³¹” of microfinance institutions operating in India as was possible. This was governed by the constraints of time, money and access.

According to Glaser and Strauss (1967), who were the pioneers of grounded theory, as long as the selected groups or categories were based on theoretical relevance, any groups could be selected. This was in contrast to the assumption that categories should be pre-prepared based on known characteristics or similarities. The idea was to make a broad selection for unobstructed data collection to be used for the generation of theory. Where categories might have been already pre-determined, one is controlled by the preconceptions of existing theory, the latter method of selection allowed for new, undiscovered properties to emerge. The wide selection of interview subjects could be used to find similarities or differences,

²⁷ Pg 12. K Rossel-Cambier, “Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View”, Université Libre de Bruxelles-Solvay Business School-CEB, Working Paper No 08/004, (2008)

²⁸ Pg 12. K Rossel-Cambier, “Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View”, Université Libre de Bruxelles-Solvay Business School-CEB, Working Paper No 08/004, (2008)

²⁹ Pg 15, BAEZA C., Extending social protection in health through community based health organizations, ILO STEP-Universitas, 2002, pp 1-80.

³⁰ Willis, W.J., (2007), Foundations of Qualitative Research – interpretative and qualitative approaches, Sage Publications: California , p 189, ISBN 978-1-4129-2741-3

³¹ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 49

whereas pre-planned sampling would diminish the chances of finding unique factors which are important for the “fullest understanding of such a group.”³²

The sampling number cannot be determined in advance. Instead, the optimal number is reached at a point of theoretical saturation. That is, when no new data is being found. The researcher plays the role of an “active sampler of theoretically relevant data”³³ Theoretical saturation is reached by the simultaneous analysis and data collection.³⁴ Data must be continuously analysed in order to determine the progression of the theoretical question.³⁵ Hallbere (1998) utilized these sampling methods. The purpose of a strategic sampling is to include all possible variants being studied, thereby providing one with a holistic view of the phenomenon³⁶.

Theoretical sampling allowed us to identify organizations that fit into our sampling group. As more data was collected the variations in the organizations allowed for stricter sampling specification. The final sample consisted of organizations of varying legal forms. The resulting sample includes 3 NGOs; 1 Section-25 Company; 3 NBFCs (non-deposit taking³⁷); 2 Cooperative Women’s Banks; 1 local area bank and several private parties offering relevant information.

2.2.3 Comparative Analysis for Theory Generation

Research aimed at theory generation requires the usage of three procedures, data collection, coding, and analysis, performed simultaneously. Glaser and Strauss mean that no single type of data or data collection method is more or less appropriate in theoretical sampling. Rather, a diversity of techniques could be used and is encouraged since it widens the view for understanding categories and the properties associated with these categories. They call these different views slices of data. Research is inevitably constrained by structural conditions such as access and who is available to be observed or interviewed. However, any slice of data obtained, used for comparison, can yield the same socio-structural information that would be obtained otherwise.³⁸

When the aim is to generate theory using a theoretical sampling method the researcher must be aware of temporal aspects that affect the study. Instead of separate periods of work being designated for the collection, coding and analysis of the data to occur, Glaser and Strauss argued that all three procedures occurred simultaneously. It is impossible to “engage in theoretical sampling without coding and analyzing at the same time”. When data is collected in the field, theoretical sampling consists of various data collection methods like the reading of documents, conducting interviews and making observations, all at the same time, “since all slices of data are relevant”³⁹.

³² Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 49-51

³³ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 58

³⁴ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 61

³⁵ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 58-59

³⁶ Lillemor Hallbere, 1998, “ En Kvalitativ Metod; influerad av grounded theory traditionen”, Nr. 2, Göteborgs Universitet, Psykologiska Institutionen

³⁷ It came to our attention only at the end of the data-collection period that NBFCs with solely deposit taking licenses also exist, but unfortunately we were unable to contact any of them

³⁸ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 67

³⁹ Glaser, Barney, G. & Strauss, Anselm L., (1967) The discovery of grounded theory: strategies for qualitative research, p 71- 75

2.2.4 Development of Theoretical Search

The theoretical data searches were first guided by our interest in the sustainability debate. We were interested in finding justifications for the continued use of subsidies and to see if such organizations had striven towards the goal of financial self-sufficiency. From there emerged the distinction between for-profit and non-profit microfinance institutions. We then became interested in finding the mission and purpose of MFIs operating in India and we were curious to see if there was a divergence of purpose. Our observations suggested differences in the way for-profit and non-profit MFIs operated. Some of those concepts included issues of ownership, structure, governance, informal markets, poverty measurement and types of poverty in combination with outreach.

2.2.5 Implications of Method

The use of grounded theory for data collection and analysis involved the usage of both an inductive (looking for new concepts and their interconnections) and a deductive (verification of concepts or relationships in existing and new data) approach. An approach using a combination of constant searches for new concepts and convergences as well as relating new findings with existing theory is said to be abductive⁴⁰.

Use of an abductive approach in this paper entails a preliminary literature review which formed the basis for the initial research question and related concepts to be studied. These concepts were used as guidelines to formulate the initial interview guide, which was of a semi-structured form (see appendix D2). As the data collection process began so did also the analysis. Time was taken between interviews to analyse the results and questions for the coming interviews and were formulated in light of the new information that had been obtained. A verification process was performed simultaneously, linking the new data to that from our literature review. The process allowed for a tighter specification and focus on the questions asked.

Sangasubana (2009) put forward some strategies for ethnographic analysis suggested by Roper & Shapira (2000). After the initial coding, he suggested sorting the data for patterns, identifying possible connections. He mentioned the benefits of “generalizing constructs and theories” by relating the patterns to existing literature and “memoing with reflective remarks”⁴¹. Sangasubana (2009) also described three criteria that should be closely monitored for control of quality in an ethnographic research model. Those three criteria were reactivity, reliability, and validity. These three criteria and the implementation of control are discussed in detail at the end of the study in chapter nine.

3. Literature Review

This chapter provides a theoretical framework based on existing literature within the field of microfinance. An introduction is provided to the “commercialization debate” and research arguing both sides of the case. The chapter then focuses on the details within this debate and provides examples of

⁴⁰ Lillemor Hallbere, 1998, “ En Kvalitativ Metod; influerad av grounded theory traditionen”, Nr. 2, Göteborgs Universitet, Psykologiska Institutionen

⁴¹ Nisararana Sangasubana (2009), How to Conduct Ethnographic Research, The Weekly Qualitative Report, Vol. 2 No. 36, September 7, 2009 208-214

consequences and empirical evidence from existing research regarding the trade-offs associated with both a commercial and a non-commercial approach to micro finance. The differences between for-profit and not-for-profit organizations are discussed. The chapter ends with a summary of the issues presented and puts forward our position on the subject as well as the implications of the literature review for the field study.

3.1 Microfinance and Sustainability

Sustainable, according to the Meriam Webster online dictionary is defined as, “*of, relating to, or being a method of harvesting or using a resource so that the resource is not depleted or permanently damaged*”⁴². Sustainability as a term is closely related to the growing concern for the environment in the form of resources, climate and ecology. When resources are limited it is reasonable to argue that these should be consumed mindfully. Along with the concern for ecological sustainability, a concern for social and economic sustainability has also arisen. More specific to the field of microfinance, sustainability can be described as a “*lender’s capacity to operate for a considerable period of time, measured in decades, independent of subsidy or altruistic support*”⁴³.

A convergence of the concepts of microfinance and sustainability occurs in the debate concerning the commercialization of microfinance. Mainstream capital is attracted to finance microfinance (pushing-up the expected return-rates) which in turn affects the interest rates that end borrowers pay. As mentioned in the outset, Compartamos and Grameen Bank have significantly diverging views on the issue. Those can be related to the pressure from groups in favor of commercialization on the need for financial self-sustainability and others with the opposing view to aid through grants or loans.

The argument is that if microfinance can be commercialized there is no need for donations since mainstream investments can finance the costs⁴⁴. The poor are then able to pay interest-rates that bear both high returns and profits. The proponents however argue that the outreach is significantly compromised since the large organizations shift their focus to richer clients and away from the poor. Both views are discussed in more detail below.

3.1.1 The Win-win Argument

Microfinance, as discussed in the introductory chapter refers to financial services provided to target clients who for various reasons have not been served by regular banks⁴⁵. Microfinance has existed primarily as an informal exchange between parties. It is only in the last three decades that microfinance has come to the forefront after a number of failed attempts. Efforts are currently being made to formalize the financial services provided through MFIs⁴⁶. By entering the market of profit and loss, one driven by

⁴² Meriam Webster Online Dictionary, URL: <http://www.merriam-webster.com/dictionary/sustainable> [cited 2009-05-20]

⁴³ J.D. Von Pischke, (the author refers to a definition from Otero and Rhyne, 1994), “Measuring the trade-off between outreach and sustainability of microenterprise lenders”, *Journal of International Development*, Vol. 8, No. 2, 225-239 (1996)

⁴⁴ Ibid

⁴⁵ [Microfinance : evolution, achievements and challenges / edited by Malcolm Harper](#), London : ITDG ; 2003, pp 3

⁴⁶ James C. Brau & Gary M. Woller, “Microfinance: A Comprehensive Review of the Existing Literature”, *Journal of Entrepreneurial Finance and Business Ventures*, Vol. 9, Issue 1, 2004, pp. 1-26

demand and supply, microfinance institutions now face an increasing pressure to be sustainable, that is, to be able to sufficiently cover their costs as well as earn a return on the money invested in them.⁴⁷

According to Brau and Woller, microfinance has proved to the world that poor clients previously marked as “non-creditworthy” can actually be bankable and through microfinance numerous financial services for the poor have emerged. Microfinance has not only demonstrated that cost-effective financial services can be provided to the poor, but also that it can provide an opportunity to generate profits. However, it is important to stress that the underlying inspiration behind the growth of microfinance has been and still is poverty alleviation.⁴⁸

It is this double-sided benefit of poverty alleviation and profit making that has spurred the sustainability debate. While it is generally agreed that sustainability is the need to conserve resources, the disagreement emerges when discussing the means used to finance micro financial institutions. Traditionally, with the objective of poverty alleviation, microfinance projects have been initiated by welfare and development organizations funded by subsidies and grants. Many of these organizations with the poverty alleviation motive have also received donations from private donors. However, the effects that these subsidies have had on development remain unclear and inconsistent. Existing research varies on a scale of substantial poverty reduction in Bangladesh to no noticeable effect in Thailand⁴⁹.

3.1.2 Questioning the Win-win Argument

Morduch questions the win-win situation, focusing his argument on the tradeoffs known to be associated with financial self-sufficiency by questioning seven assumptions made by proponents for non-subsidized credit.⁵⁰

The first argument dwells upon the idea that demand for loans is essentially inelastic in terms of interest rates. MFIs are thus able to charge high rates in order to fund their operations without relying on subsidies. However, as Murdoch points out, the very poor are often unable to repay loans with excessive interest rates and thus are left out of the equation. Hence, subsidies are meant to help those households who normally would be unable to receive credit from financially sustainable microfinance institutions.⁵¹

The second argument deals with scale of operations. The claim is that financially-sustainable institutions can operate on a larger scale and thus reach more clients compared to subsidized programs. Although this may be the case, Morduch argues that subsidized programs often target the very poor- those far below the poverty line. Although the financially sustainable programs may be targeting a larger group of individuals, subsidized programs focus in greater depth and thus the sum of total poverty alleviation may be greater. One more dollar a day for the very poor has a greater impact on their lives than one more dollar a day for the intermediate poor.⁵²

⁴⁷ [Microfinance : evolution, achievements and challenges / edited by Malcolm Harper](#), London : ITDG ; 2003, p 6

⁴⁸ James C. Brau & Gary M. Woller, “Microfinance: A Comprehensive Review of the Existing Literature”, *Journal of Entrepreneurial Finance and Business Ventures*, Vol. 9, Issue 1, 2004, pp. 1-26

⁴⁹ Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, “Microfinance Meets the Market”, *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

⁵⁰ Morduch, Jonathan, “The microfinance schism,” *World Development*, (2000), 28, 617-629

⁵¹ Pg 621. Morduch, Jonathan, The Microfinance Schism, *World Development* Vol 28., No. 4, pp 617-629, 2000

⁵² Pg 622. Morduch, Jonathan, The Microfinance Schism, *World Development* Vol 28., No. 4, pp 617-629, 2000

The third argument deals with sustainable MFIs as having greater access to capital markets in order to reach a larger number of households. However, this is not always the case. Microfinance institutions that service the very poor, whether sustainable or not, will find it hard to access capital markets due to the fact that their non-collateralized loans are at greater risk. In his words, “*the chief constraint is not subsidization per se but the ability to limit perceived riskiness*”⁵³.

The fourth argument rejects the common assumption that subsidized microfinance institutions are bound to fail due to their inefficiency. Morduch states the example of Grameen and the Bangladesh Rural Advancement Committee on being able to operate efficiently through the use of subsidies for over 30 years. Furthermore, the claims that funding will dry-up for subsidized programs is not seen as a relevant due to the majority of governments still proclaiming their commitment to poverty alleviation.⁵⁴ Although profit is usually a motivating tool to encourage efficient operations, non-profit MFIs can encourage efficiency through socially-determined transfer prices, i.e. internal prices to value capital that are adjusted downward to show the social gain made by lending to the poor. Thus when social gain is added into the equation, there is a degree of efficiency⁵⁵

The fifth argument addresses the failures of early (1960s-1970s) micro credit programs when credit fell into the hands of non-poor. As previously mentioned, politically well-connected individuals ended up receiving funding instead of those really in need. This buy-votes-with-subsidies mentality was further aggravated by loans often being lent at unreasonably low rates. These low rates created a situation where sustainable informal and formal lenders alike were unable to compete and thus led to a subsidy trap. The failures of the past however pertinent, cannot rule out the use of all subsidies which could be targeted at providing reasonable loans to the disenfranchised instead of unreasonably cheap loans.⁵⁶

The sixth argument again looks at past failures and the hesitancy of non-subsidized programs of having any government involvement. Since subsidized micro credit institutions inevitably have to deal with government organizations and other special interests to procure loans, the real issue is to increase transparency and to foster a healthy relationship between the organization and government.⁵⁷

The final argument addresses savings targeting the notion that subsidized programs are unable to mobilize people's capital. Savings allows MFIs to re-lend the capital to other persons and helps clients build capital and collateral to obtain new loans and invest in new projects. Traditionally, subsidized programs tended to be less vigilant in mobilizing savings. They generally provided clients with a forced savings feature alongside micro lending as a form of collateral in case of default. Furthermore, most subsidized programs had been unable to offer a traditional savings function because of government regulations.⁵⁸ Subsidized programs can solve this problem by working together with chartered banks that are allowed to have a savings function, thus solving the problems that arise through involuntary savings or no savings

⁵³ Pg 623. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

⁵⁴ Pg 623. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

⁵⁵ Pg 624. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

⁵⁶ Pg 624. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

⁵⁷ Pg 625. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

⁵⁸ Pg 626. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

functions. However, mobilizing savings will only be profitable for MFIs if programs are able to generate a return that is higher than donors are able to generate elsewhere.⁵⁹

Why do firms tend to rely so much on subsidies? The answer lies in the costs. Reaching the very poor is expensive and transaction costs are high. Also, the problem of asymmetry of information makes it hard for lenders to know the creditworthiness of individuals. Furthermore, the disenfranchised often have no collateral for the loans.⁶⁰ In conclusion, the MFI seems to have three main choices: lower costs by increasing the breadth of operations, increase the interest rates and fees to the borrowers or to accept subsidies.

The early micro credit programs relied too heavily on subsidization and almost all collectively failed. The onset of failure was probably brought by over-subsidization, lack of accountability leading to high default rates and lack of incentives to mobilize savings. Furthermore, the programs set up to help individuals on the lower tiers of society failed at achieving their objectives due to politically connected and perhaps undeserving individuals and households receiving the loans instead.⁶¹ MFIs today have tried to avoid the pitfalls of yesterday by avoiding government involvement and employing innovative contractual terms such as group lending incentives for saving.

With time, microfinance has grown to become what it is today. The notable example is the 2006 Noble Peace Prize winner Muhamad Yunus' organization, Grameen Foundation, which shows the recognition microfinance, has received worldwide. The success of Grameen is met with a contingent shift of paradigms where increasing consumption based on excessive leveraging and capitalism is being questioned in the midst of a global financial crisis. Thus, the recent focus on the importance of financially sustainable organizations has begun to be questioned. This in turn requires new light to be shed upon the sustainability debate to map the future of microfinance and ensure that the vulnerable and poor do not have to bear the largest burden of the crisis.

3.1.3 Institutionalists vs. Welfarists

The proposed win-win situation, alleviating poverty while generating a profit, has in turn resulted in the emergence of a blend of organizations. Among these are the for-profit businesses that want to contribute to welfare or perhaps just bank on the previously ignored massive market of financial services for the poor. We also see a large number of non-profit and non-governmental organizations working primarily with the intent of making a difference in world poverty. What distinguishes for profit and nonprofit organizations is not their profitability but rather how they gather resources to further distribute or lend among poor.

Brau and Woller distinguish between two main schools within microfinance, the *Institutionalists* and the *Welfairists*. The Institutionalists believe that microfinancial institutions, like all other businesses need to have a) institutional sustainability (relating to operations and administration) and b) financial self-sufficiency (relating to the economic situation). Furthermore, institutional sustainability can only be achieved with the existence of financial self-sufficiency.

⁵⁹ Pg 625. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

⁶⁰ Pg 620. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

⁶¹ Pg 620. Morduch, Jonathan, The Microfinance Schism, World Development Vol 28., No. 4, pp 617-629, 2000

The Welfarists, on the other hand believe strongly that microfinancial institutions can be sustainable without achieving financial self-sufficiency. They argue that grants and charity serve as social equity that provides investors with a social return rather than a financial return. The Welfarists place a strong emphasis on the alleviation of poverty through microfinance and argue for depth of outreach rather than breadth of outreach which is propagated by the Institutionalists⁶².

3.2 For-Profit and Non-Profit Organizations

Microfinance institutions could be financed by internally generated revenues or by loans financed by subsidies through assistance grants. In the for-profit sector the question of survival is similar to any other business: either one makes a profit or one's out of business. The non-profit sector depends on external sources of funds and can be presumed to have less of an incentive to be cost-effective. Additionally, some microfinance organizations might rely on both external funds as well as internally generated revenues. Their survival could then be dependent on the ratio between these two areas of external and internally generated funds. How each carries out its business will most likely affect future access to grants and subsidies.

3.2.1 Social and Financial Returns

Two major approaches exist within the area of microfinance, the poverty-lending approach and the financial systems approach. While the objective of both is to reach poor people and provide them with financial service solutions they differ in how these are achieved.

The poverty lending approach relies on a need for donations and government subsidies to effectively provide low interest rate loans to poor people. The target group is the extremely poor and savings opportunities are usually not provided beyond the mandatory savings required for a loan.

The financial systems approach is based on a commercialized and economically sustainable view of microfinance. By providing the economically active poor with loans at market costs while meeting their savings demand these institutions are financed through commercial credit, savings and for-profit investments.⁶³

Robinson makes a distinction between the demands of the people being served by the two different approaches. The economically active poor can benefit from savings, managed consumption, and credit. The extremely poor, starving, illiterate and unemployed poor do not need debt; they need food, shelter and education.⁶⁴

Moving back to our original categorization this would mean that non-profit organizations traditionally favor the poverty lending approach while for-profit microfinance organizations lean more towards the financial systems approach. Keeping in mind the differences between the two approaches, the question is then asked of whether the success and survival of NGOs should be judged with the same measuring stick as the for-profit organizations?

⁶² The authors reference to (Morduch 2000, Woller et al. 1999a) in their article, James C. Brau and Gary M. Woller, "Microfinance: A Comprehensive review of the Existing Literature", 2004

⁶³ Robinson, Marguerite, Microfinance Revolution : Sustainable Finance for the Poor, 2001, World Bank Publications pp 7-8

⁶⁴ Robinson, Marguerite, Microfinance Revolution : Sustainable Finance for the Poor, 2001, World Bank Publications pp 7-8

Dichter means that NGOs have a different purpose altogether and “financial self-sustainability brings deep changes in the way NGOs do their work”⁶⁵. Dichter suggests that NGOs operate with different missions in mind and urges that it is not only the non-profit part that sets NGOs apart but also the fact that these are operations based on compassion. Sustainability in financial terms would mean generating a positive return on invested money which could be lent out to more poor people. However, according to Dichter, doing anything beyond this (read: financial sustainability) to help the poor is seen as a “distortion of economic rationality”⁶⁶. According to Dichter, this is problematic because empirical evidence suggests the more we rely on economic rationality, the more we compromise “social return”. Dichter reiterates the empirical evidence shown by other studies (S. Navajas et al, 2000) that a focus on financial sustainability increases the tendency for microfinancial organizations to move upwards on the poverty scale, serving the market on the top of the iceberg, i.e. the richest of the poor. He argues that return on investment is different from return to borrower which should be measured before convicting NPOs of unsustainability.

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Microfinancial organizations operating out of a deep sense of commitment to the poor should provide credit to the disenfranchised but also help these borrowers make good use of their loans. A combined effort to help the poor use their loans to invest in income-generating activities and create a better life for themselves should be central to NGO’s operations. Dichter means that many loans go to consumption rather than investment in growth or productivity of businesses. He also states that many loans, especially those targeted towards women, focus on “income enhancement” rather than “enterprise development and growth”⁶⁸. Loans that do go to enterprise development also have limitations because the businesses of the impoverished often lack competitive advantage on the marketplace and tend to inhibit growth. These problems relate to a lack of absorptive capacity by borrowers and a lack of confidence in borrowers’ businesses. The lack of knowledge of how to address these issues must be looked upon seriously if NGOs are to survive. A focus on these issues could help strengthen the cause for continued aid and support for microfinancial NGOs. As Dichter argues, NGOs “will be afraid to admit that what they may do best is unsustainable without subsidy”⁶⁹.

3.2.2 Costs and Interest Rates

Von Pischke explains in his article that NGOs tend to have negative leverage or lose money because of every dollar lent, less than a dollar is sustained due to excessively low or even the absence of interest rates. This leads to an unsustainable system, constantly dependent on the injection of new funds from government or private donors.⁷⁰

⁶⁵ Quoted from: Thomas W. Dichter, “Questioning the future of NGOs in microfinance”, *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

⁶⁶ Thomas W. Dichter, “Questioning the future of NGOs in microfinance”, *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

⁶⁷ Thomas W. Dichter, “Questioning the future of NGOs in microfinance”, *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

⁶⁸ Thomas W. Dichter, “Questioning the future of NGOs in microfinance”, *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

⁶⁹ Quoted from: Thomas W. Dichter, “Questioning the future of NGOs in microfinance”, *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

⁷⁰ J.D. Von Pischke, “Measuring the trade-off between outreach and sustainability of microfinance lenders”, *Journal of International Development*: Vol 8, No. 2, 225-239, (1996)

An empirical study of five microfinance (for-profit) organizations in Bolivia showed that the majority of households reached by these organizations were close to the poverty line. However none of the for-profits reached the poorest of the poor. It is interesting to note that the three organizations using group lending techniques appeared to have better outreach than those lending to individuals.⁷¹

Robert Cull et al. showed in a comparative study of non-profit and for-profit MFIs that repayments do occur by poor households for loans with high interest rates and also that “modest subsidies can be used without notable efficiency losses”. They also find that non-profit microfinancial institutions generally target poorer borrowers as compared to the for-profit institutions. A significant difference is found between the outreach of for profit and those not-for-profit institutions. The trade-off is obvious when approaching the market place.⁷² Cull’s article asks eight broad questions and applies those to a sample of 346 microfinancial institutions. He tries to answer the main concerns of subsidy, profits and the social impact of microfinance. He concludes that subsidized organizations differ from others in that they have better outreach. In the Cull et al. sample, 54% of nongovernmental MFIs are profitable while 73% of the banks were profitable (having a financial sustainability ratio of over 1). However, since the sample contains more NGOs than banks, a percentage of active borrowers served by profitable institutions were also calculated. Profitable NGOs served 91% of all borrowers accessed by NGOs (91% of 8.9 million) amounting to eight million borrowers. Profitable banks serve 92% of all bank customers (92% of 4.1 million). Although these numbers could be skewed due to the sample which contains many more NGOs than banks, the percentages of borrowers served by profitable institutions is very similar, 91% and 92%.⁷³(See Appendix A for more statistics)

3.2.3 Targeting and Lending Approaches

The study by Cull et al. (2009) also notes a dichotomy between the types of institutions utilized by lenders. In the sample, about 66% of banks use an individual lending approach while around 75% of the nongovernmental banks use group lending approaches. Microfinance banks lend in much larger volumes as compared to NGOs, but microfinancial NGOs serve many more clients.⁷⁴ The implication of this is that banks mobilize larger loans per borrower and offer lower costs per borrower.

Another interesting divergence is that 85% of the NGO borrowers are women with many of them serving only women. Banks, on the other hand have a 49% client base of women. The sample also indicated that the highest interest rates are in fact being charged by NGOs, most probably explained by their high costs per dollar lent.⁷⁵

Utilizing regression analysis, the authors estimate average self-sufficiency ratio to range from 61-72% depending on which measure is used. This indicates that most microfinancial institutions in the sample do

⁷¹ S. Navajas, M. Schreiner, R.L. Meyer, C. Gonzalez-Vega & J. Rodriguez-Meza, “Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia”, *World Development*, Vol 28, No. 2, pp 333-346, (2000)

⁷² Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, “Microfinance Meets the Market”, *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

⁷³ Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, “Microfinance Meets the Market”, *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

⁷⁴ Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, “Microfinance Meets the Market”, *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

⁷⁵ Ibid

not cover their costs and there seems to be variation among the organizations. According to their analysis, operating costs explain this variation to a much larger extent than differences in costs of capital. NGOs typically have greater operating costs associated with the smaller loans that they disperse and the study suggests that if most of these NGOs charged lower interest rates than they do now they would need larger subsidies to operate on the same level. Concerning subsidy, NGOs received a median of \$233 per borrower as opposed to a median of zero for banks.⁷⁶ To summarize, it has not been proven that subsidies reduce the efficiency of microfinance organizations, but it is a fact that NGOs have higher operating costs as compared to regulated microfinancial banks.

In a study of 42 microfinancial institutions in India, Crombrughee, Tenikue and Sureda conducted a performance analysis on empirical data collected from a number of Indian microfinancial organizations. They take into account various performance indicators to chart the success of these organizations and analyze the indicators of operational performance in relation to social objective indicators. They evaluate the microfinance organization's ability to attain sustainability without severely compromising outreach. Their results suggest that there are ways of improving financial results without increasing loan size or monitoring costs. They suggest better targeting or increasing the number of borrowers per field officer.⁷⁷

Since India is the context where our empirical study would be performed, it was interesting to note some of the microfinance models used in India. In one study two types of delivery models were found, individual and group models. Group models were further divided into SHG (self help groups), Grameen, and JLG (joint-liability-groups). Microfinancial institutions using the individual lending model operated much like standard banks, providing financial services to individual clients. SHGs were economic solidarity groups created by borrowers themselves and operated using a single account at the MFI. The Grameen model lent to groups of five individuals with the group being structured and monitored with weekly intervals. Savings was mandatory for all members. JLG lending entailed providing individual loans to a group of four to six people with individual loans acting as a guarantee for the others. Saving was usually not mandatory in JLGs. In the sample studied by Crombrughee et al, 26 of the 42 organizations operate through SHGs, 8 use the Grameen model, 5 the individual model, and three operate through JLGs.⁷⁸

3.2.4 The Structure of the Organization

In an article written by Mersland et al (2008), the authors looked at the organizational structure of MFIs in India. They asked whether microfinancial institutions transformed into shareholder-owned MFIs created an intrinsic advantage. Proponents of such a reorganization point to the inherent differences in functionality between privately owned vs. publicly owned companies in a broad range of sectors. A shareholder-owned MFI could more easily access funding through the issuance of equity, thereby creating better transparency. In turn that would provide a greater access to external debt or mezzanine financing regulated by the existing financial service authorities. Additionally, the reorganization of the MFI would

⁷⁶ Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, "Microfinance Meets the Market", *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

⁷⁷ A. Crombrughee, M. Tenikue & J. Sureda, "Performance analysis for a sample of microfinance institutions in India", *Annals of Public and Cooperative Economics*, 79:2, pp 269-299, (2008)

⁷⁸ A. Crombrughee, M. Tenikue & J. Sureda, "Performance analysis for a sample of microfinance institutions in India", *Annals of Public and Cooperative Economics*, 79:2, pp 269-299, (2008)

create an air of accountability which in turn would create operational and financial efficiency (pg 598-9). However, after analyzing 200 non-governmental MFIs in 54 countries the authors found that the differences were minimal. Organizational structures were profit-driven, both were equally socially-driven and the only real difference resided in the legality issue where NGO's often found it harder to mobilize savings.⁷⁹

3.2.5 Commercialization and Governance

If one is to look at microfinance through the prism of the poverty lending approach, microfinance has the main objective of poverty alleviation. Thus one can say the main mission of Microfinance is to reduce poverty. This mission in turn is ensured through the governance of an organization. As ACCION International stated, "governance is a process by which a board of directors manages an institution in fulfilling its corporate mission and protects the institution's assets."⁸⁰ As microfinance has emerged as one of the leaders in combating poverty, governance of MFIs has become a debated issue. Since the market is relatively unregulated, and transparency seems to still be an issue for many MFIs,⁸¹ a new independent watchdog has been created to police them. Their purpose is to ensure that the individuals the organizations are meant to serve are not being harmed by excessive interest rates or loan shark mentality.⁸² Although actions have been taken to ensure that microfinance does not revert to untoward practices, governance is becoming an increasingly important tool to ensure that it sticks to its original mission of helping the poor.

Since Microfinancial Institutions are often partly owned by their investors (which are also their clients), there are understandably problems related to their governance. Tche (2006) expanded upon Branch and Baker's (1998) governance issues and outlined three potential problems. The first was to do with the priorities of the hired management and the elected directors of the MFI. The directors could either be borrowers or savers of the organization, whereas the management was hired to run the organization. Clearly, all counterparties had different objectives which could distort conveying the mission of the organization throughout the MFI. The second probable area of difficulty dealt with the tendency of MFI's boards to be dominated by borrowers instead of savers. With borrowers dominating the board, there tended to be less diligence to ensure prudence and proper financial management. That in itself could be in conflict with the survival and financial sustainability of the organization. The final identified problem area dealt with lack of self-regulatory framework which has been already discussed. Due to the majority of funds being raised by their members, self regulation and transparency are not priorities. Possible solutions could be made by raising money in capital markets where there is more emphasis on accountability and governance.⁸³

⁷⁹ Pg 275. Roy Mersland & Oystein Strom, "Performance and Trade-offs in Microfinance Organizations – Does Ownership Matter?", *Journal of International Development*, 20, pp 598-612 (2008)

⁸⁰ Pg 1, Rock, Rachel et al, *Principles and Practices of Microfinance Governance*, Microenterprise Best Practices, ACCION International, 1998

⁸¹ Hamm, Steve. "Setting Standards for Microfinance", http://www.businessweek.com/bwdaily/dnflash/content/jul2008/db20080728_875314.htm, 2008

⁸² <http://www.mftransparency.org/>

⁸³ Tche, jacob, *microfinance Governance and Poverty Reduction: a Theoretical Analysis*, Faculty of Economics and Management, University of Yaoundé II, 2006

Tche (2006) also distinguished between individual, external and internal governance. In terms of external governance, an MFI has responsibility to its investors and the community with which it operates. Because poverty alleviation is the mission of the organization, external governance should be viewed as the most important objective. Internal governance on the other hand ensures that the managers, board of directors and employees operate in a consistent manner. Again, the mission should be followed uniformly throughout the organization. If managers and employees have diverging actions, the mission's objective would be compromised. This then ties into individual governance where each individual is expected to follow the agreed upon code of conduct and ensure individual ethical responsibilities which is a potential problem when expecting that others will monitor their own behavior.⁸⁴

Discussions regarding MFIs often focus on the Double Bottom Line achieving financial sustainability while contributing to the welfare of the disenfranchised. Herein microfinance governance can also be viewed as a method to ensure that capital is employed efficiently and effectively. Therefore, governance should not only be used to convey the mission throughout the organization but to also serve as a control mechanism.

Many have argued that financial governance is increased when management is properly compensated on a performance basis and board size is decreased to minimize free-riders. Furthermore, performance will be negatively affected if employees make up a portion of the board and positively affected if the board members are not affiliated with the company⁸⁵ However; the research has mainly focused on 'normal' corporations and not on MFIs. A study done by Hartarska (2005) tested these governance mechanisms in a microfinance context and showed that managers of MFIs do not increase profit maximization through performance based compensation. The important feature for them was that they received what they perceived as adequate compensation. Without adequate compensation, outreach would be hurt and fewer customers would be served. The managers who were most effective at obtaining the double bottom line (sustainability, depth and breadth) were those that had more experience and were unaffiliated with the organization. Thus savers or borrowers who were not on the board and whose decision making actions could not create a positive monetary gain for them were most effective in governance. This was confirmed in governance literature. On the other hand, the study showed that donor board members improved breadth and depth, but hurt sustainability probably due to rent-seeking behavior. Interestingly, if the board was partially made of clients, sustainability was improved with detriment to breadth and depth which disclaimed existing theory of corporate governance. Furthermore, it was shown that there was in fact a positive correlation between a *larger* board size and sustainability and not conversely.⁸⁶

A similar study conducted by Strøm and Mersland (2007) showed that ownership structure did not create a significant difference between operational and financial sustainability when comparing NPOs with profit-oriented organizations. Interestingly enough, external governance mechanisms such as regulations imposed by governments had little impact on outreach and performance. The authors offered three explanations why external governance had little effect on the operational capabilities of the MFIs studied:

⁸⁴ Ibid

⁸⁵ Jensen, M., & Murphy, K. (1990), Performance pay and top-management incentives. *Journal of Political Economy*, 98, 225–264.

⁸⁶ Hartarska, Valentina, Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States, *World Development* Vol. 33, No. 10, pp. 1627–1643, 2005

1) internal governance acted as the main control mechanism, 2) MFIs were usually in their early stages where external governance played an insignificant role and 3) competition was an efficiency enforcement tool.⁸⁷

3.3 Trade-offs in Microfinance

There are several tradeoffs associated with the commercialization of microfinance. Two significant tradeoffs indicated by research presented so far are financial sustainability and depth of outreach and the effects of commercialization (or profit-seeking) on welfare (the social impact). It has been shown that using mainstream financing gives greater access to resources but inevitably seems to shift the focus away from the poor. There is also an issue regarding competition which exists in the form of fighting for the same sources for grants. Conversely, higher returns would yield more investors. These tradeoffs and the associated implications are elaborated upon under this section. This section also deals with the issue of informal money lenders and loan sharks.

3.3.1 Is Outreach Worth Compromising?

Outreach, in microfinance, is a measure of poor borrowers being reached or provided with microfinance services. A distinction is usually made between breadth and depth of outreach. Breadth related directly to the number of people being served whereas depth is denoted by the level of poverty being targeted. For example, “poor” can be divided into living just above or just below the poverty line. An organization serving only those below the poverty line thus has deeper outreach than an organization serving a larger number or poor just above the poverty line.

Six aspects of outreach discussed in this study are depth, worth to users, cost to users, breadth, length, and scope. *Depth of outreach* is the value that society attaches to the benefit associated with the use of micro credit given to a borrower. Since poorer people are weighted heavier in the field of microfinance, poverty is a good measure of depth. *Worth to users* is measured by the amount borrowers are willing to pay for a certain loan. *Cost to user* is the total cost associated with the loan for the borrower. *Breadth of outreach* refers to the number of poor borrowers. *Length of outreach* refers to the length of time during which a microfinance organizations provides services. *Scope of outreach* is the number of different services provided by an organization.⁸⁸

Keeping in mind the commercialization debate, it is especially important to understand the implications of three of these areas of outreach, i.e. *depth*, *breadth*, and *length*. The authors argue that a deeper outreach tends to increase social value (reaching the ones who need it the most) but inevitably also increases social cost because it is more costly to judge risks associated with loans as the income and wealth of the loan-taker decreases. Since there are many poor people who need financial services, aid and even internally generated funds are insufficient to serve them all. Hence, another trade-off must be made in terms of the breadth of outreach. To provide loans to some would inevitably mean denying loan services to others. Finally, length of outreach is important because without length of outreach and a long-term plan, only

⁸⁷ ⁸⁷ Mersland, Roy & Strøm, Reidar Øystein, 2007, "Performance and corporate governance in microfinance institutions," *MPRA Paper 3887*, University Library of Munich, Germany.

⁸⁸ S. Navajas, M. Schreiner, R.L. Meyer, C. Gonzalez-Vega & J. Rodriguez-Meza, "Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia", *World Development*, Vol 28, No. 2, pp 333-346, (2000)

short-term solutions can be provided to alleviate poverty. Repeated loan losses and arrears as well as a lack of profits create a negative spiral hurting not only the lending organization but also borrowers as well as employees.⁸⁹

Examples from commercialized microfinance institutions in Indonesia and Bolivia show a relationship between the breadth of outreach in low-income borrowers and the self-sufficiency of the institution.⁹⁰ It appears that self-sufficiency positively affects outreach. However, the empirical evidence indicates breadth of outreach at the compromise of depth of outreach. Simanowitz and Walter acknowledge the trade-offs between social and financial objectives but suggest that MFIs can and do actually achieve financial self-sustainability while reaching the poorest in terms of outreach⁹¹.

One of the purposes of this study is to determine the impact of microfinancial institutions in India. Although no metric measure is used, both employees and clients are interviewed and comparisons made between the organizations and the success of their outreach.

3.3.2 The Implications of Competition on Microfinance

Theoretically, competition should increase efficiency and thus lower the prices of goods or services. Thus when applied to the topic of microfinance one would expect interest rates to decrease with increased competition. However, McIntosh et al. (2005) show that this is not necessarily the case. It has been noted that competition between lenders reduces rates of interest that each MFI can charge. However, because of the cost of funds socially-motivated lenders cannot reach the poorest borrowers unless higher rates of interest are charged because transaction costs are often higher reaching these individuals. (Socially motivated lenders often charge rates of interest that are 1% more per month than profit seeking MFIs.) Furthermore, socially motivated lenders might in some cases undercut competition by setting interest rates so low that profit seeking MFI's are unable to operate in the target market in a financially sustainable manner. This could be avoided by providing subsidies on a worst-case-scenario-basis where subsidized loans are made available to the very poor.⁹²

The third and final problem seen with an increase of competition lays in the information asymmetry, adverse selection and moral hazard issues. Adverse selection occurs when information asymmetry exists for either a buyer or a seller and therefore the individuals involved are unable to distinguish between good and bad risks.⁹³ This can occur for both the MFI and the clients of an MFI. Microfinance institutions operate under considerable pressure to operate efficiently while providing relatively cheap loans to the poor. Often they do not have sufficient information to distinguish between good and bad clients and thus, the risk of default increases. The clients on the other hand, often do not have sufficient financial

⁸⁹ S. Navajas, M. Schreiner, R.L. Meyer, C. Gonzalez-Vega & J. Rodriguez-Meza, "Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia", *World Development*, Vol 28, No. 2, pp 333-346, (2000)

⁹⁰ Robinson, Marguerite, *Microfinance Revolution : Sustainable Finance for the Poor*, 2001, World Bank Publications p 8

⁹¹ Anton Simanowitz & Alice Walter, *Ensuring Impact : Reaching the Poorest While Building Financially Self-Sufficient Institutions, and Showing Improvement in the Lives of the Poorest Families: Summary of Article Appearing in Pathways Out of Poverty: Innovations in Microfinance for the Poor*, Occasional Paper 3, 2002

⁹² Pg 292, Craig McIntosh & Bruce Wydick, "Competition and Microfinance", *Journal of Development Economics* 78 (2005) 271-298

⁹³ Picard, Pierre, "On the design of incentive schemes under moral hazard and adverse selection," *Journal of Public Economics, Elsevier*, vol. 33(3), pages 305-331, 1987.

knowledge to distinguish between MFIs that are offering competitive loans to those that are charging interest rates above the market average.⁹⁴

Moral hazard occurs when parties are insulated by risk and act in a way contrary to how they might normally act.⁹⁵ Both the MFI and clients are exposed to moral hazards. For the MFI, the risk is that the client will knowingly take out a loan without the intention of repaying it because of the lack of resources or failure of a legal framework to allow the MFI to collect the loan. On the other hand, individuals depositing capital at the MFIs are often unaware of where the funds will be invested and thus have significant deposit risk of their own.⁹⁶

Lenders will frequently not share information with each other, thereby furthering information asymmetry. For example, lenders may be unaware that other MFI's have already lent to a certain individual. Thus, borrowers may take upon themselves multiple loans which increase the likelihood of borrower default unbeknownst to the lenders. Lenders will generally not exchange information with each other as to which borrowers are creditworthy and those that are not. This problem has been noticed by MFI's who have developed information sharing systems such as credit bureaus or internet based central risk-management systems which identify defaulted borrowers and pinpoint which individuals have previously been provided loans.⁹⁷

3.3.3 Informal Money Lenders

Despite the growing access to formal lending institutions such as banks and developed MFIs, the informal credit markets in India still play a significant role in providing relatively cheap and easy access to credit. A study conducted by the Invest India Economic Foundation, found that only 43% of loans were secured by formal credit.⁹⁸ Similar studies have shown that the informal credit sector still accounts for two-fifths of total lending in India.⁹⁹ Others have attributed 80% of borrowings to the informal sector.¹⁰⁰ Although semi-formal microfinance has grown considerably, a study done by Rutherford in Bangladesh (a country with well-established MFIs including Grameen) found that only 15% of total financial transactions of the households surveyed could be attributed to Microfinance Institutions.

Informal money lenders are often portrayed as unsophisticated loan sharks supplying only credit with high interest rates. Although studies have shown that informal lenders tend to lend to riskier individuals who have little or no collateral, they tend to insulate themselves by using sophisticated determinants of interest rates. Such sophisticated determinants are influenced by a number of factors such as the

⁹⁴ Mersland, Roy & Strøm, Reidar Øystein, 2007, "Performance and corporate governance in microfinance institutions," *MPRA Paper 3887*, University Library of Munich, Germany.

⁹⁵ Picard, Pierre, "On the design of incentive schemes under moral hazard and adverse selection," *Journal of Public Economics*, Elsevier, vol. 33(3), pages 305-331, 1987.

⁹⁶ Mersland, Roy & Strøm, Reidar Øystein, 2007, "Performance and corporate governance in microfinance institutions," *MPRA Paper 3887*, University Library of Munich, Germany.

⁹⁷ Pg 274. Craig McIntosh & Bruce Wydick, "Competition and Microfinance", *Journal of Development Economics* 78 (2005) 271-298

⁹⁸ Banks getting tough competition from informal lenders, http://www.rupeetimes.com/news/personal_loan/banks_getting_tough_competition_from_informal_lenders_1185.html, November 2007

⁹⁹ Pg 176, Robinson, Marguerite S. The microfinance revolution, World Bank Publications, 2001

¹⁰⁰ Banks see big future in small loans in India, <http://www.dailyexpress.com.my/news.cfm?NewsID=48148>, September 2007

borrower's education, farm size, technology utilized and profit potential.¹⁰¹ Thus, informal lenders seem to use similar methods as formal institutions when determining interest rates, basing many of their decisions on the extent of risk a borrower might pose. Informal lenders often provide a cornucopia of financial services that go far beyond traditional lending.

3.4 Categorizing the Poor

From the conflicting focus of the evidence mentioned earlier, i.e. breadth of outreach vs. depth of outreach, it's important to discuss what is meant by "poor." Firstly, there is the obvious difference between the income-generating poor and the unemployed poor. Even if the difference between their standards of living is hair-fine, this distinction is crucial to mitigating poverty. Credit enables income-earning people to use credit to expand their income-generating activities while credit to an unemployed person cannot be interpreted as anything other than debt.

An article in the Independent published April 15, 2009, titles, "*1500 farmers commit mass suicide in India*". *The pressure of debts left those farmers with no other option. A quote from a representative from the Organic Farming Association of India was posted in the article, stating, "Farmers' suicides are increasing due to a vicious circle created by money lenders. They lure farmers to take money but when the crops fail, they are left with no option other than death"*¹⁰².

Acknowledging the heterogeneity of the poor can allow for better targeting by microfinance organizations whose differing precepts make for better adapting to the clients they serve. If poverty were left undefined it would be impossible to measure the results of social philanthropy. According to the United Nations, poverty is defined as:

*"a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights."*¹⁰³

This goes beyond the general economic measure of one to two dollars a day and takes into account factors that are not necessarily linked with a person's economy. Focusing on more than an individual's daily wage makes the analysis of the poor all the more complicated.

Most definitions of "poverty" are made from a third-party perspective and not from the actual people living in the socioeconomic situations described. A study done by Kirshna (2007) in four different countries in six regions including Andhra Pradesh, Gujarat and Rajasthan in India looked at the different levels of poverty through the perspective of impoverished. The study was conducted by separating the men from the women in a village and interviewing them separately. The groups were then asked what typical action a person would take when freed from acute poverty. Which expenditures would be immediately made when stepping over the poverty line? Not surprisingly, all regions answered that food

¹⁰¹ Iqbal, Farrukh(1988)'The determinants of moneylender interest rates: Evidence from rural India, Journal of Development Studies,24:3,364 — 378

¹⁰² Quotes taken from online publication of The Independent, April 15, 2009, URL:

<http://www.independent.co.uk/news/world/asia/1500-farmers-commit-mass-suicide-in-india-1669018.html>

¹⁰³ official website of UNHCR, URL <http://www.unhcr.ch/development/poverty-02.html> [cited 20090910]

would be the first investment. The full list is presented in Appendix C 1. Note that the dotted lines correspond to the point where the poverty barrier is broken.

One can see that there are similarities between regions in India and even across countries where the majority of the categories correspond to physical needs. However, one can notice that there are also social needs such as education and house repairs that do not necessarily constitute acute physical needs. Highlighting these would assist us in defining “poverty.” The above study also looked at a household’s progression in or out of poverty over the past 25 years. The research team asked the community households to categorize their movement in one of four categories: poor then and poor now, poor then but not poor now, not poor then and poor now, and not poor then not poor now. They then asked the households who had fallen into poverty or stayed in poverty the reasons behind their regression or lack of progression. The results are presented in tables two and three in Appendix C 1.

Two results from the study are interesting to note. First, all the regions in India had had more people escaping poverty than those that had fallen into poverty. This showed that there has been a positive progression out of poverty. Secondly, high interest debt payments were one of the major reasons for falling into poverty. The percentage of high interest payments leading to poverty were: 72% of cases in Rajasthan, 52% of cases in Gujarat and 60% of all cases in Andhra Pradesh. This has important implications for our study. It is yet another example of when excessive loans and high interest rates do more detriment than good. Furthermore, high debt is not a result of leveraging a small entrepreneurial venture but is usually caused by attempting to cover basic needs such as food, health care costs and funerals.¹⁰⁴

Another study conducted in West Bengal by Mukherjee (2005) utilized similar methods as did Krishna by asking local communities to conduct their social analysis in order to rank different categories of poor. The table shown in Appendix C 2 is a summary of field notes taken in that study. The study provides an insight into what local communities think of poverty. Again, physical needs seem to be of higher priority for the ultra poor, and material wealth increases as does physical security the richer an individual becomes. Thus wealth is not only measured by economic security but also social and physical status. What should be noted is that the most destitute i.e. the ultra poor were not supported by NGO’s and government run programs despite their being on the lowest tier of society. This confirms Morduch (2002), that the ultra poor are often unable to receive loans or help from organizations whether MFIs or other thus further perpetuating the cycle of poverty.

3.4.1 Impact Assessment Tools

The difficulty of measuring poverty creates problems in assessing the impact of microfinance on the indigent.

According to the Grameen foundation, too many MFIs focus almost obsessively on financial sustainability and too little on poverty alleviation.. The Grameen Foundation measures the total results or impact of an organization by two factors: Financial Performance Indicators and Social Performance

¹⁰⁴ Pg 7. Krishna, Anirudh, Subjective assessments, participatory methods of poverty dynamics: The Stages-of-Progress method, Working Paper, pp 1-18, 2007

Indicators. In order to measure the latter indicator, the Grameen Foundation has developed a measure called the Progress out of Poverty Index or PPI for short¹⁰⁵. The PPI was developed for MFIs to analyze the impact their organizations had on social goals. Each index was country-specific and had been designed according to expenditure and income data taken from representative household surveys. Unfortunately, PPI should be used as a longitudinal tool measuring the poverty level of individuals over time. One would have to measure the difference in poverty levels and thus impact between two points of time and thus, PPI cannot be applied in this study.

A case study on micro enterprises from Zambia uses qualitative impact assessment from the borrowers' point of view. The study uses financial measures of borrowers' businesses to measure the impact of microfinance on welfare. They measure impact on business performance by comparing profits before and after loans had been received, and find an average of 10% increase in profits. They use qualitative inquiry to complement their statistical findings, measuring impact on household income and well-being by inquiring on the amount of profit from the micro enterprise that was transferred for household expenditures. The average was about one third of the business profits. The borrowers were also questioned about their perception of how their quality of life changed.¹⁰⁶ According to the authors, "The case study illustrated the advantages of utilizing more than one approach to impact assessment¹⁰⁷". The utilization of both positivistic and interpretivist which were previously defined methods of data collection and analysis allowed them to extract vital information and to explore the wider context of variations and similarities.

Anton Simanowitz stresses the need for assessment tools to measure poverty which then allow the measurement of poverty outreach of various MFIs. He quotes Littlefield et al. 2003 that in order to achieve a direct impact on poverty; MFIs must reach the poorest of the poor people. What becomes important is to measure outreach that in turn can act as an indicator of measuring the impact of assistance on poverty.¹⁰⁸ The PAT (poverty assessment tool), which he describes, was developed by the CGAP and it uses a number of indicators to combine various dimensions of poverty. The PAT examines "current economic status and fulfillment of basic needs, the means to achieve a level of welfare in the present and future, such as assets, human and social capital. PAT elucidates on other aspects of the definition such as health status and access, access to food, shelter, clothing, and degree of vulnerability to future shocks¹⁰⁹". Although a good measurement tool for assessing relative poverty of borrowers vs. non-borrowers, Simanowitz warns that the PAT is less effective when wanting to make comparisons on the MFI level to a national or local poverty level.

¹⁰⁵ <http://www.progressoutofpoverty.org/system/files/PPITrainingGuide.pdf>

¹⁰⁶ James Copestake, Sonia Bhalotra & Susan Johnson, "Assessing the impact of microcredit: A Zambian case study", *The Journal of Development Studies*, Vol. 37, No. 4, April 2001, pp 81-100

¹⁰⁷ James Copestake, Sonia Bhalotra & Susan Johnson, "Assessing the impact of microcredit: A Zambian case study", *The Journal of Development Studies*, Vol. 37, No. 4, April 2001, pp 81-100

¹⁰⁸ Anton Simanowitz, *Appraising the poverty outreach of microfinance: A Review of the CGAP Poverty Assessment tool (PAT)*, Imp-Act, Institute of Development Studies, ISBN 1 85864 8009 • NUMBER ONE • 2003

¹⁰⁹ Anton Simanowitz, *Appraising the poverty outreach of microfinance: A Review of the CGAP Poverty Assessment tool (PAT)*, Imp-Act, Institute of Development Studies, ISBN 1 85864 8009 • NUMBER ONE • 2003

3.5 Summary of Literature Review

The literature review chapter provides a framework built upon existing literature. The concepts emerging from the literature review that are most vital to our study are summarized here to reiterate as well as narrow down the information which later leads to the generation of questions used as guidelines for our research questions.

3.5.1 Today's Global Context

Looking into the debate concerning commercialization of lending, we find a number of parameters associated with the ongoing discussion. These include the concepts of social and financial returns, profit-making and subsidization and the impact (in terms of breadth and depth of outreach) of microfinance. Related to these issues is also the division of microfinance institutions into those that are profit-oriented and those that are explicitly non-profit (having a larger tendency to depend on subsidies). The question of trade-offs emerges and we need to look at what pros and cons commercialization and subsidized non-profit organizations imply. These concepts are summarized under the headings below and in order to show how these concepts relate to each other, a model is then presented, linking these together.

3.5.2 Commercialization or Subsidization

Sustainability and microfinance are often discussed together in the framework of the commercialization debate. There are proponents of commercialization who suggest that access to mainstream capital would allow them to grow and hence help a larger number of poor people. Microfinance has not only demonstrated that cost-effective financial services can be provided to the poor, but that it also can provide opportunities to generate profits to those lending the capital.¹¹⁰ This is the so-called win-win proposition, arguing that there are benefits for everyone since microfinance helps the poor but also has proven to generate positive profits for those controlling the funds. This argument has in turn, led to the belief that microfinance should be commercialized on a larger scale and financial sustainability should be demanded of all micro financial institutions. In this context the need for subsidies would be unjustified.

In contrast, Morduch (2000) suggests several arguments for the need of subsidization in microfinance. He mentions that subsidized programs are often targeted towards the extremely poor, focus on depth of outreach and are efficient. Murdoch explains that the need for subsidy comes from the high transaction costs associated with reaching the poorest. The loans to the poorest are high in frequency, but low in amount and interest rate, making them expensive to mobilize. The opponents of commercialization of microfinancial institutions also argue that the social mission is diluted when organizations turn to profit-making. Dichter reiterates the empirical evidence shown by other studies (S. Navajas et al, 2000) that a focus on financial sustainability increases the tendency for microfinancial organizations to move upwards on the poverty scale, serving the market on the top of the iceberg, i.e. the richest of the poor.¹¹¹

¹¹⁰ James C. Brau & Gary M. Woller, "Microfinance: A Comprehensive Review of the Existing Literature", *Journal of Entrepreneurial Finance and Business Ventures*, Vol. 9, Issue 1, 2004, pp. 1-26

¹¹¹ ¹¹¹ Thomas W. Dichter, "Questioning the future of NGOs in microfinance", *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

3.5.3 Financial and Social Returns

Dichter argues that return on investment is different from return to borrower which should be measured before convicting NPOs of unsustainability.¹¹² With this, he means that there is more to an investment than just the financial return that is yielded on basis of the interest rate. A return to borrower implies betterment in the life situation for the borrower which can be seen as a social (rather than financial) return. Dichter also argues that many loans go to consumption rather than investment or growth in productivity.

3.5.4 Mission

For the purpose of this thesis we have divided microfinancial institutions into 1) those that are run by subsidies, 2) those that are run through profits and 3) those that use a combination of internally-generated revenue as well as grants or donations.

From the literature it can be implied that the organizations that represent the proponents and opponents of commercialization have varying objectives guiding their approach towards microfinance. The two approaches presented were the poverty lending approach and the financial systems approach. Of course, the poverty lending approach had the principal goal of poverty alleviation¹¹³. It focused on a need for donations and government subsidies to effectively provide poor people loans at low interest rates. The financial systems approach is based on a commercialized and economically sustainable view of microfinance.¹¹⁴ In dealing with mission, we believe that the missions of different types of microfinance organizations vary depending on whether they are for or against commercialization. Keeping this in mind, we formulated questions regarding the missions of the organizations to be interviewed.

3.5.5 Profit or Not

There are several distinct differences between the for-profit and not-for-profit microfinancial institutions that have been studied. Taking into consideration these differences as well as the opposing stances mentioned above, we expect not-for-profit organizations to use a poverty lending approach and the for-profit to be more inclined towards the financial systems approach.

Dichter argues that NGOs have a socially motivated mission driven by compassion and pleads that NGOs “will be afraid to admit that what they may do best is unsustainable without subsidy”¹¹⁵. Von Pischke explains that NGOs tend to have negative leverage (lose money) due to charging excessively low interest rates, leading to an unsustainable system that forces them to remain dependent on future subsidies¹¹⁶. Navajas et al. (2000) concluded that organizations using group lending techniques appear to have better

¹¹² Thomas W. Dichter, “Questioning the future of NGOs in microfinance”, *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

¹¹³ Gulli, H. (1998), *Microfinance and poverty: questioning the conventional wisdom*, Washington, DC: Inter-American Development Bank pp 2

¹¹⁴ Robinson, Marguerite, *Microfinance Revolution : Sustainable Finance for the Poor*, 2001, World Bank Publications pp 7-8

¹¹⁵ Thomas W. Dichter, “Questioning the future of NGOs in microfinance”, *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

¹¹⁶ J.D. Von Pischke, “Measuring the trade-off between outreach and sustainability of microfinance lenders”, *Journal of International Development*: Vol 8, No. 2, 225-239, (1996)

outreach than those lending to individuals.¹¹⁷ Cull et al. (2009) find that non-profit microfinancial institutions generally target poorer borrowers as compared to the for-profit institutions and that subsidized organizations differ from others in that they have better outreach. Cull et al attribute the variations of costs between NGOs and profit-seeking organizations to operating costs rather than the cost of capital.¹¹⁸

3.5.6 Impact and Outreach

Outreach, in microfinance, is a measure of poor borrowers being reached or provided with microfinancial services. A distinction is usually made between breadth and depth of outreach. Breadth related directly to the number of people being served whereas depth is denoted by the level of poverty being targeted

The literature review discusses various methods for measuring the impact of microfinance. This in turn, poses the need for a measure of poverty. Since varying approaches exist to measuring degrees of poverty it goes without saying that measuring poverty is problematic. Most of the approaches demand a longitudinal study. For our study, however, a longitudinal overview is not possible; hence we only include the perspectives of borrowers as well as employees of microfinance organizations. The impact will be judged through their answers to questions referring to changes they experience in their lives since the exchange of funds began. They will be asked how things were before they started borrowing and will be asked what had specifically changed. This is a modification of the model used by Copestake et al. (2001), which takes into account both qualitative data on the borrowers' businesses and their interpretation regarding changes in their quality of life.

3.5.7 Tradeoffs and Targeting

The tradeoffs mentioned in the literature review are depth of outreach at the cost of a stringent focus on achieving financial self-sustainability and the implications that a fully competitive microfinancial market would imply. A deeper outreach tends to increase social value¹¹⁹ and subsidized organizations have shown a greater focus on depth of outreach than their self-sustainable counterparts. Also, competition in microfinance can push interest rates so low that socially motivated lenders are unable to reach the very poor, ultimately even pushing the profitable microfinance institutions out of the market¹²⁰.

“Targeting” suggests that for-profits and not-for-profits target different clients. This will be interesting for the analysis relating to impact where we rely on a subjective measure of impact based on the perspective of the clients.

¹¹⁷ S. Navajas, M. Schreiner, R.L. Meyer, C. Gonzalez-Vega & J. Rodriguez-Meza, “Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia”, *World Development*, Vol 28, No. 2, pp 333-346, (2000)

¹¹⁸ Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, “Microfinance Meets the Market”, *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

¹¹⁹ S. Navajas, M. Schreiner, R.L. Meyer, C. Gonzalez-Vega & J. Rodriguez-Meza, “Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia”, *World Development*, Vol 28, No. 2, pp 333-346, (2000)

¹²⁰ Pg 292, Craig McIntosh & Bruce Wydick, “Competition and Microfinance”, *Journal of Development Economics* 78 (2005) 271-298

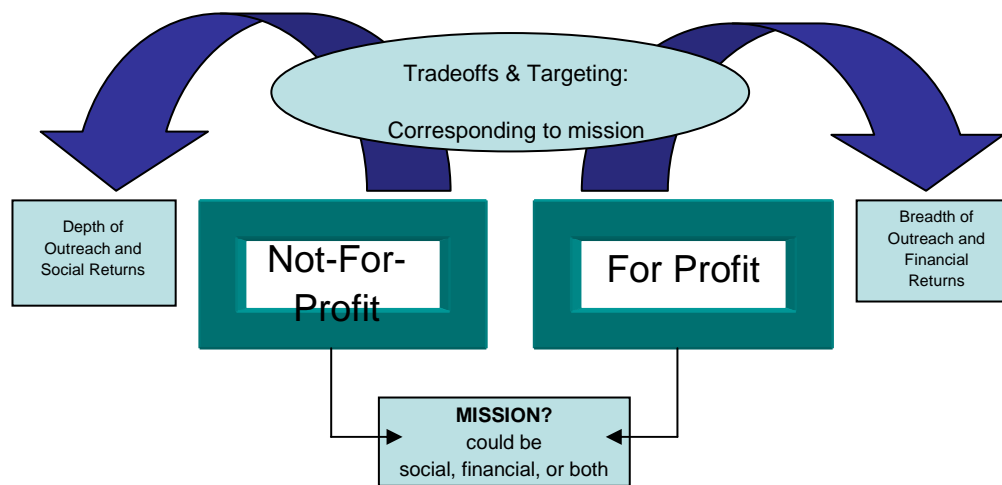
3.5.8 Approaching the Research Question

The existing theory provides a background for the data collection that takes place in the form of a field study. The theory presented in this chapter provides the grounds for several propositions to be tested during the field work. The summary provided above brings forward the concepts that relate to our research question and the purpose of the study. The research question is, ***“What is the mission and context of operation and impact of MFIs operating in India?”***

We approach the research question by dividing the purpose of the study into three sub-purposes, which if each is fulfilled, will allow us to answer our research question. The three sub-purposes are to:

- Create a framework for understanding the main mission which microfinance institutions are operating under
- Explore the external and internal circumstances (regulations, operations, outreach, targeting) that these organizations operate under
- Explore the impact of MFIs on borrowers as seen from the MFIs and the borrowers’ perspectives

Below we present a simple model showing how the concepts presented above relate to each other. We have divided for-profit and not-for profit organizations into two categories, both of which, according to the literature presented, have tradeoffs. However, they choose to go through with these tradeoffs and apply some form of targeting, reaching either the poorest (for non-profits) or the richest of the poor (for for-profits). We ask what their underlying mission is and by understanding the contextual setting of microfinance (such as regulations, laws and government involvement) we will try to establish whether the mission is strongly related to the final impact of the microfinance institutions. Therefore, the aim is to understand the context and the mission that various organizations have. We are then able to analyze (through the interviews with employees and clients) whether the mission is being fulfilled and whether it can be related to the impact of the organizations.



PART TWO:

THE FIELD STUDY

CH 4. Practical Methodology

CH 5. Background and Contextual Setting

CH 6. Empirical Findings



4. Practical Methodology

This chapter provides a detailed description of the methods employed in the collection of data for our thesis. The first part of the chapter elaborates on the kinds of investigative resources used and where they were found. The second part of the chapter deals with the data collection related to the field study that contributed to the findings and analysis. The formulation of interview guides and details surrounding these interviews are also provided. At the end of each section to this chapter is a critique of the methods we used. In light of all this data and while aware of the drawbacks to whatever methodology employed we sought the best option.

4.1 Data Collection relating to Theoretical Frame

Below are discussed the databases and keywords used to search for relevant information and how and which hits were utilized. The data collection is presented in a chronological evolution of the research process. What is also detailed is how each round of search guided the research process to a more defined, next round.

4.1.1 Round One

The first step for collection of material was to search databases of the Umeå University Library, accessing relevant literature within the field of microfinance. The first round of keywords used to search the databases was “microfinance,” “micro financial institutions,” and “microfinance and India.” The hits included numerous articles ranging from the early 1990s to the present. The hits also revealed several books and compilations of scientific articles that proved beneficial in the beginning of the research project. The articles and books primarily used during this phase included the following:

Microfinance Evolution, Achievements, and Challenges by Malcolm Harper, (2003). This is a compilation of articles from the well-known journal, *Small Enterprise Development*, which is one of the journals that publish the majority of articles relating to micro financial content. This book helps to understand the field of microfinance, tracing the development and changes that have occurred in the field within the past decades. The articles also provided inspiration for the research question and spurred further research targeted towards sustainability in micro financial institutions.

Among the articles used from the first round of searches were, “Microfinance: a Comprehensive Review of the Existing Literature,” by James C. Brau and Gary M. Woller (2004). This article provides a brief introduction to the existing research in the field of microfinance. The authors divided their paper into five categories, each concentrating on existing paradigms and debates within these. This article was helpful as a source that led to the second round of searches. From this article, primary sources for these ideas were retrieved to increase validity and reduce bias.

Another article from round one was, “Performance Analysis for a Sample of Microfinance Institutions in India” by Alain de Cromrugghe, Michel Tenikue, and Julie Sureda (2008), published in the *Annals of Public and Cooperative Economics*. This article helped us progress with our research question as from the beginning we were interested in the issue of sustainability and had received a scholarship from SIDA allowing us to perform a field study of that topic in India.

4.1.2 Round Two

The second round of searches included looking for works of the authors mentioned in Brau and Woller's article. In the second round of searches we included the keywords "non-profit," "for-profit" and "sustainability/sustainable." The aim of this search was to find articles more directly linked to our research question as well as to find more recent research, since most of the relevant research from search one was from the later 1900's.

4.1.3 Round Three

The third round of research was even more focused and related to the mission of organizations, measuring poverty and the impact of assessment of micro financial institutions. At that point, a search on methodological references and theories were also made. Grounded Theory became the choice method for data collection and analysis and we started by looking up the pioneers of grounded theory, Glaser and Strauss (1967). We then looked for additional references to strengthen our case, relating it more closely to the purpose of the study.

4.2 Data Collection Relating to Empirical Findings

Here we mention all the practical aspects concerning the data collection that took place in the field, i.e., the empirical part of the study. As mentioned in the theoretical methodology chapter, a simultaneous collection, coding, and analysis of data took place in the field.

4.2.1 Practical Aspects of Sampling and Data Collection

When sampling in a study like this scope it was important to always keep the purpose of the study in mind. The purpose of the study, as a reminder, was to understand the context in which microfinance institutions in India operated and what their mission and impact were. To conduct the study we chose to conduct interviews that were of theoretical relevance. By theoretical relevance we chose those whom we were to interview. Our choosing them was to "fully develop as many properties¹²¹"; of microfinance NGOs operating in India as was possible.

According to Glaser and Strauss, pioneers of "grounded theory," as long as the selected groups have theoretical relevance any group can be selected. This is contrary to the assumption that categories should be defined a-priori, based on known characteristics. The idea was to make a broad selection for unobstructed data collection for theory generation. Where categories were pre-determined, one would be controlled by the preconceptions of existing theory. The latter method of selection would allow for newer, undiscovered properties to emerge.

The wide selection of interview subjects could be used to find similarities and differences, whereas preplanned sampling diminishes the chances of finding sporadic factors which are important for the "fullest possible development" of the understanding such a group.¹²²

¹²¹ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 49 - 51

¹²² Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 49 - 51

The first step in the sampling process entailed using all our contacts to get in touch with people having some connection (either as recipient or administrator) with microfinance in India. Maira's father, a Rotarian, facilitated our meetings with fellow Rotarians in India. Through a mutual friend, Deepak Talwar, contact was established with an NGO called Ashta No Kai operating in Puna. While working in an internship in San Diego, Mishka had the opportunity to attend a microfinance summit at UCSD in March 2009. There he established contact with two large multinational MFIs also operating in India, the Grameen Foundation and Project Concern International.

Contact by phone and email was also made with all the larger NGOs and microfinance institutions. However, contacting their central offices was not always productive. It was noticed that lacking direct contacts frequently created entry barriers. The only organization that responded positively in their e-mail with intentions of meeting with us was Ashta No Kai.

The data collection took place parallel to the sampling as we tried to contact the organizations on an ongoing basis. It often took about seven to eight phone calls and a number of emails before we could book a formal meeting. When the opportunity for interviews with managers presented itself we quickly responded. For a detailed weekly log on the field study, please see appendix D1. All interviews were recorded on two Dictaphones. Longhand notes were also taken during field visits. Photographs were taken in the field as well as in office milieus. The weekly log documented the practical aspects surrounding the research work. An excel file with the sample and current status (no response, established contact, follow up, interview on 2009-xx-xx, or completed) was updated concurrently. While spending our first two weeks in New Delhi we established contact with the organizations, interviewing those present in the city. We planned our trip according to the feedback we received. The closest interview to Delhi was in Jaipur while the most distant interview took place in Hyderabad. Our interview guide was revised before each meeting with newer aspects added, depending on the setting, the type of organization we were meeting, the people we were interviewing (e.g. customers or employees) and the information obtained during the course of our research.

4.2.2 Analysis and Presentation of Data

The empirical findings and analysis of these findings will be presented in coming chapters and this section provides an explanation of the way the data had been handled. The results section comprises of a compilation of the data gained through field visits. It is in the form of individual and group interviews as well as relevant observations made during the time in the field.

Data analysis and interpretation is a taxing exercise because of the amount of data that is generated. During the field study we both spent time discussing the upcoming setting, brainstorming relevant concepts. The data collection took the form of group and individual interviews and simply listening to ongoing discussions (for example, when visiting SHGs in their meetings). Often during the interview (an hour or longer) or between interviews (when many people were interviewed during the same day and in the same area) we would take the time to discuss the progression of the interview with each other. This preliminary level of analysis guided us into unique areas where novel topics emerged that required further elaboration.

As time permitted we began transcribing the interviews, taking note of emerging themes. These we recorded in what we called our “observational charts.” When presenting the empirical findings in this paper we used the observational charts along with the transcriptions to give a complete picture of each case. The results include a preliminary aspect of coding, i.e categorizations bringing forward the key aspects in each case. This was done to better describe the contents in the interviews as well as to reduce the data to a manageable size¹²³.

The next chapter, “Analysis,” arranged the initial categories into broader categories, pointing out generalities among them as well as identifying their differences. These broader categories were then related back the data in the literature review (which was also re-evaluated and elaborated upon after the data collection) to identify convergences with existing theory. Finally, memos and reflections have been added while writing the paper. This also helped provide an overview of chronological events.

4.2.3 Adaptation of Original Ideas

Before our arrival in India we were interested in studying microfinance institutions on a qualitative basis. The hope was to understand how they worked and how their functions differed from each other. We hoped thereby to analyze the findings as an ongoing comparative analysis. Our interest to understand how the organizations function stemmed from research suggesting that many MFIs were not sustainable. For example, Servet (2005) estimated that only 10% of MFI’s were able to survive without subsidies¹²⁴.

This observation was an eye-opener, spurring us to ask why so many MFIs required subsidization. Subsidization of course posed a question of sustainability. The question we raised was whether some organizations that required subsidies were effective if their self-sufficient competitors could provide the same or better services while making a profit. How would grants and subsidies to non-self sufficient organizations be justified? This initial question provided a framework for our data collection and analysis for this thesis.

After starting with our data collection we decided to abandon the term MFI when sampling, deciding instead to include organisations that either directly or indirectly provided one or many financial services, whether those were categorized as MFIs or not. The reasons for that decision were several. 1) Very few of the organizations interviewed fit the exact definition of an MFI as they may not provided all financial services needed to be considered a microfinance institution and sometimes they often just acted as facilitators of microfinance services. 2) Self-help groups might be classified into one of several categories because of Indian regulations. Because of this we simply focused on organizations that promoted financial services, including several types of organizations in the sample so as to maximize their differences. We anticipated that such inclusions would help in performing our comparative analysis¹²⁵.

During the data collection process we were exposed to an array of development initiatives provided by an equally wide array of organizations working for the betterment of the poor. Many organizations used the

¹²³ Nisaratana Sangasubana (2009), How to Conduct Ethnographic Research, The Weekly Qualitative Report, Vol. 2 No. 36, September 7, 2009 208-214

¹²⁴ Pg 9, K Rossel-Cambier, “Combined Micro-Finance: Selected Research Questions from a Stakeholder Point of View”, Université Libre de Bruxelles-Solvay Business School-CEB, Working Paper No 08/004, (2008)

¹²⁵ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 58-59

broad term of “livelihood promotion” while describing their work. Within that term could be several initiatives with perhaps some that included financial services. On the other hand, some organizations did not provide any financial services directly but acted as a link between groups of borrowers and lenders. Because of the differences between models and organizations we decided to maximize our sample¹²⁶ by including any group that provided a financial service that might or might not enable bank linkages.

The resulting sample included 3 NGOs (Arpana, Ashta No Kai and Disha), 1 Section 25 Company (PSC), 3 NBFCs (non-deposit taking*¹²⁷, Basix, SML, SKS), 2 Cooperative Women’s Banks (Sewa Bank and Mann Deshi), 1 Local Area Bank (KBS LAB) and several individuals holding relevant information.

5. Contextual Setting

This chapter consists of the information we gained access to through the process of our data collection and analysis. Most information had been retrieved from official websites but some areas are explained through data collected in the form of interviews. The chapter acts as a bridge between the practical methodology and the empirical findings and analysis related to the research question. Here we also include findings from independent sources that relate to the contextual setting of microfinance in India with a representative from a consulting firm and representatives from two venture capital firms.

5.1 Government Initiatives

This section has been added as bridge between the literature review and the empirical part in order to provide readers with a brief background to terminology and the latest developments in microfinance. Since much of our information was new to us, parts of this section were compiled after conducting our interviews. Three additional sources were used to fully compile this section and they were 1) the website for the Indian Central Bank known as RBI (Reserve Bank of India), 2) the website for NABARD (National Bank of Agriculture and Rural Development) and 3) the website for Sa-dhan (Capacity Building Organization).

5.1.1 RBI (Reserve Bank of India)

In a press release 2008-2009/261, the Chief General Manager of the Reserve Bank of India provided a summary of the initiatives provided by the bank during that period. The press release was obtained from the RBI website stating that: *“In recent years the Reserve Bank of India has emphasized credit quality, improvement of the credit delivery system with specific focus in agriculture, micro, small and medium enterprises and financial inclusion. There has been significant increase in the credit flow to agriculture, small and medium enterprises and crop loans at administered interest rates”*¹²⁸

Anoop Kaul, National Head of Financial Inclusion for Basix explained that, *“The Reserve Bank of India has mandated banks to give loans to the poor. It should be about 40% of the total basket of loans. For the remaining 60% of the funding should be pursued through microfinance institutions and NGOs.”*

¹²⁶ Glaser, Barney, G. & Strauss, Anselm L., (1967), The discovery of grounded theory: strategies for qualitative research, pp 44

¹²⁷ It came to our attention only at the end of the data-collection period that NBFCs with solely deposit taking licenses also exist, but unfortunately we were unable to contact any of them

¹²⁸ Obtained from Official Website of RBI “Department of Communication, RBI releases Annual Report for 2007-08, dated August 29, 2008

5.1.2 NABARD (National Board for Agriculture and Rural Development)

Government initiatives coupled with state-initiatives to meet the credit-needs of the poor have existed in India for decades. In the 1980s NABARD conducted a study in association with a leading NGO and found that many poor were not being reached by these programs. The study concluded that the services were not well-suited to meet the needs of their target clients. Access to such services appeared to be a bigger need than access to subsidized credit.¹²⁹

As mentioned earlier in the literature review, microfinance has transitioned from simple credit to a full array of services. According to NABARD, it was after their study was conducted that they felt that there was a need for *“Alternative policies, systems and procedures, savings and loan products, other complementary services and new delivery mechanisms which would fulfill the requirements of the poorest...The emphasis therefore was on improving the access of the poor to microFinance (mF) rather than just micro-credit”*¹³⁰.

In 1992 the SHG bank linkage programme was started and today this model is widely used as it has become accepted by the RBI, which advises banks to use SHG as part of their ordinary rural credit operations.

5.1.3 SIDBI (Small Industries Development Bank of India)

SIDBI (Small Industries and Development Bank of India) in 1999 started an initiative for micro credit called SIDBI Foundation for Micro Credit (SMFC). The mission was to help create an Indian network of MFIs from both the informal as well as the formal sector to make micro financial services available to India’s poor, especially women. SIDBI has partnered with several international organizations such as the Department for International Development (DFID), UK for its capacity building initiatives and International Fund for Agricultural Development (IFAD), Rome. These partnerships provided grant funding as well as capacity building. SMFC then acted as a “wholesaler for microfinance in India, providing a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing MFIs”. SIDBI also worked to advocate policies and regulations for the micro finance sector in India¹³¹.

SIDBI has an attitude of neutrality and borrowers are free to adopt any form of lending method. In short, their services include re-financing of MFI’s, capacity building, liquidity management, equity, syndication loans and several other incentives targeted at the growth and support of micro financial initiatives in India¹³².

5.2 Private Sector Initiatives

The success of NABARD’s initiatives that led 500 bank-linked SHGs to become 1 million in 2004 is partly credited to various “NGOs, socially spirited individuals and financial institutions” that helped create these SHGs and link them with the opportunity to access banking services. Many such NGOs have

¹²⁹ Official website for NABARD, www.nabard.org, [cited 20090727] <http://www.nabard.org/microfinance/mfoverview.asp>

¹³⁰ Official website for NABARD, www.nabard.org, [cited 20090727] <http://www.nabard.org/microfinance/mfoverview.asp>

¹³¹ Official website of Small Industries Development Bank India, [cited 20090727], URL: <http://www.sidbi.com/Micro/aboutus.htm>

¹³² Ibid

grown and today we see a natural progression of organizational change that is depicted in two of the interviews conducted. Additionally, the private sector began seeing a growth in micro-financial initiatives and various models were being tested by different actors in different parts of India. There were two particular interviews that helped us achieve a better understanding of the overall landscape of micro financial initiatives and the emergence of the private sector in the field of micro finance.

At the time when SIDBI began its micro finance initiatives most organizations working with micro finance were of the NGO form. NGOs were also encouraged by NABARD to form SHG Bank Linkages and in 2007 a goal of 1 million SHG groups (that had initially been set for 2009) was reached¹³³. The NGOs that wanted to expand from creating bank linkages to being able to provide credit to borrowers applied for a legal structure known as a “Section 25 Company.”

5.3 Overview of Legal Forms

During the initial stages of our research we became acquainted with the legal forms defining institutions operating within the realm of Indian microfinance either as direct creditors or through indirect bank-linkages. Based on our interviews, exposure to these venues has helped us to understand their differences. Below, we describe these organizations. Understanding their differences assisted us in our sampling as well as in data collection and analysis.

NGO: An NGO is a non government organization which is registered under the Indian Trust Act 1882 and is governed by the Charities Commissioner. NGOs are funded by donor grants. NGOs are not allowed to make profits. Any money that is earned by them must be reinvested into the organization. NGOs in this study include Arpana, DISHA and Ashta No Kai.

SECTION-25: A Section-25 Company is governed by the registrar of the company. Section-25 companies cannot share or distribute their profits to their investors and their microfinance activities are not technically regulated as NBFCs. However, they face some restrictions. The restrictions include restrictions on disbursing credits over 50 thousand rupees for business enterprises and 125 thousand rupees for housing loans. Additionally, they’re unable to accept public deposits. A Section-25 Company differs from an NGO insofar that it has slightly more freedom when it comes to employing people and has better access to funding.¹³⁴ The only Section 25 Company in this paper is PSC.

NBFC: NBFC stands for “Non-Banking Financial Company” and can take two forms. One is a credit-only NBFC and the other is a deposits-only NBFC. NBFCs can never do both, they can either disburse loans or collect savings. Technically however, NBFCs would be able to both disburse credit and collect savings if they were able to receive the highest grading from a credit grading agency. However, no NBFC has been able to do this to date. All NBFCs are governed by the Reserve Bank of India under the

¹³³ Official website for NABARD, www.nabard.org, [cited 20090727] <http://www.nabard.org/microfinance/mfoverview.asp>

¹³⁴ Ramji, Minakshi, Taishi, Yusuke, CMF Focus Note on the Microfinance Bill 2007, IFMR Centre for Micro Finance, 2008

Companies Act of 1956. NBFCs in this study include BSFL (Bharatiya Samruddhi Finance Ltd), SKS, and SML.¹³⁵

CO-OP BANK: A Cooperative Bank is a commercial bank organized on a cooperative basis, meaning that their clients are members or owners of the organization. Cooperative banks are governed by the Banking Regulations Act of 1949 and Banking Laws Act of 1965 and are regulated by the Reserve Bank of India as well as by the local cooperative structure. Cooperative Banks may also take on the form of credit unions. The two co-op banks in this study include SEWA and Mann Deshi.¹³⁶

Local Area Banks (LAB): The only LAB studied in this paper is KBS. Local Area Banks are governed by the Reserve Bank of India. As Manmath Dalai of KBS explained, “A *Local Area Bank can only operate in three contingent districts of their choice. A local area bank can never grow outside these three districts and cannot offer savings accounts to people living outside these three districts.*”

5.4 Macroeconomic Perspective of the Indian Microfinance Market

The results presented below were collected through personal interviews with Sachin Mandikar (Consultant), Ganesh Rengaswamy (Microfinance Venture Capitalist) who works with Unitus, and Vishal Bharat who works with a microfinance equity fund, Caspian Advisors. No organizational specific analysis has been done on the organizations because these are interviews that provide an analytical overview of the microfinance market and help build the contextual setting of the micro financial environment in India.

5.4.1 Categorization and History of Microfinance in India

Sachin Mandikar: Sachin began his career as a chartered accountant but quickly moved into the field of consulting. For the past twelve years he has dedicated himself to working within the microfinance sector consulting non-governmental organizations and other microfinance institutions. He began by mentoring small NGOs and now works in the livelihood sector where the central objective is to improve the economic well-being of households. He aims at helping disenfranchised persons utilize their assets in a way that provides them with a maximum return especially in the rural sector. This involves quality enhancement services for agricultural purposes such as providing consulting to farmers on how to receive the maximum return on their land through education and training.

Self Help Groups: According to Sachin Mandikar, the only viable microfinance model when he started to work within the industry in 1997 was the Self Help Group movement. This was started on an initiative funded by the National Bank of Agriculture for Rural Development (NBARD), an independent and autonomous institution as a branch set up by the Reserve Bank of India. The SHG model was inspired by South America’s revolving savings and credit associations and the United State’s self help group

¹³⁵ NABARD official website, URL http://www.nabard.org/microfinance/mf_institution.asp, Retrieved 23.09.2009

¹³⁶ India Finance and Investment Guide, “Cooperative Banks in India”, URL http://finance.indiamart.com/investment_in_india/cooperative_banks_india.html, Retrieved 28.09.2009

movement. The SHGs were built onto a pre-existing model called Mahila Mandans which were women's social-political affinity groups organized by NGOs to give voice to women.

According to Mr. Mandikarm, today Self Help Groups typically are formed by NGOs who act as a facilitator for community mobilization, training, capacity building, holding of meetings, training women in accounting and establishing bank linkages where women are able to save the money and earn interest. The SHGs are generally made up of 10-20 women, who come together seeking to save some amount of money every month. They have their own by-laws that govern their functions, the interest rates they charge, who is entitled to loans, and savings requirements. According to Sachin, the reason why SHGs are generally created for women is due to the women of a village often are more trustworthy than the men.

The Emergence of Section 25 Companies and NBFCs: Mr. Mandikar explained that when NGO funding began to lessen newer forms of microfinance were devised. New organizations came to fruition led by Basix, which Sachin Mandikar believed to be the innovators for commercial microfinance in India. Other organizations such as Bandhan, SKS and SHARE also began to operate alongside Basix. The NGOs were at a crossroads where they wanted to continue engagement with the Self Help Groups but at the same time required funding. Thus commercial microfinance seemed to be the sensible path to receive funding on a larger scale and to legally extend credit.

Mr. Mandikar explained that many NGO's decided using a Section 25 Company that is registered under the 1956 Companies Act. Under a Section 25 Company the organization is able to distribute credit and at the same generate a profit. However, a Section 25 Company is still considered a non-profit company and is thus not able to distribute its profit. According to Sachin, the change from an NGO to a Section 25 Company with a commercial finance model not only meant that the legal structure was changed, but so was the relationship the company had with the community. Many of these organizations also had trouble with institutional capacity to mobilize funds. Many of the NGOs began with little or no startup capital and thus were often absorbed by larger MFIs. Mr. Mandikar explained that even today many of the large microfinance institutions have trouble raising capital whether in the form of equity or debt. In order for NGOs to not lose their original social goals by becoming commercial MFIs, new forms of relationships have been created between NGOs and commercial MFIs called "Community-Based Microfinance Institutions" (CBMFIs). Under this structure, funding is provided by a commercial MFI to an NGO that continues pursuing its original social mission of e.g. rights-based activism. Thus the problem of funds is effectively circumvented. Thus, according to Mr. Mandikar, *"the CBMFI continues to work exclusively as a Microfinance Institution where it facilitates credit dispersal as well as recoveries. The NGO, while the right-based organization, continues to function. This is a much better model than the NGO converting into an MFI when you run a risk of diluting your focus."* Thus the financial side of the organization, the CBMFI, functions on its own mandate with its own management team and set of funds.

Because of frequent legal challenges, Mr. Mandikar explained that Section 25 Companies chose to become non-banking financial companies (NBFCs) which would give them more freedom to borrow funds and return a profit to its shareholders who in the end enable them to raise larger sums of capital. NBFCs are able to offer the whole gamut of financial services with the exception of savings. Sachin Mandikar explained that a number of NBFCs had previously been allowed to mobilize savings. However, after a number of defaults the government took away that privilege because of the risk to the consumers.

Non-banking financial companies are regulated by the Reserve Bank of India which has its own division that supervises with strict guidelines the functions of the MFIs.

Cooperative Societies: Sachin Mandikar believed that an interesting way for people to get around the savings problem was to start a cooperative society that as a legal institution can be registered under the Cooperative Societies Act. The Cooperative Societies are essentially meant to facilitate transactions between members and thus they are allowed to accept and disburse deposits. Once a member buys shares in the cooperative, s/he is allowed to enjoy the benefits of the cooperative. Mr. Mandikar explained that Maharashtra and Gujarat had been the pioneer states for cooperatives especially within sugar and dairy cooperatives.

From Microfinance to Livelihood Development: According to Mr. Mandikar, microfinance, in the narrow sense of the word means lending money to poor people where the lender expects to be repaid. However, if a person has no livelihood or repays through the sale of assets or dipping into savings, microfinance acts as a debt trap. Mr. Mandikar questioned the microfinance model without the service of livelihood development: *“Therefore, just by extending loans, it doesn’t help the poor...the poor need more than money, they need access to markets, they need a source of livelihood and they need assets...now if the repayment comes out of the asset, the earnings from the asset...then it makes good sense...good business sense, but if the repayment comes out of savings, or that assets have to be sold to repay the debt then there is a big question mark on the entire microfinance model.”* However, Sachin agreed that even if a woman did not have a form of livelihood, if she was able to reduce her expenditures in the long run by being provided a loan, microfinance was a viable model for poverty alleviation. Sachin reiterated that the MFI’s main function is to solve *“the challenge of a billion people”*. Sachin explained that banks cannot possibly extend their services to the billion people that live in India. This is where MFIs come in and contribute *“In terms of rendering services to the farmer or borrower so he doesn’t have to leave his work space, he doesn’t have to forego his wages and he doesn’t have to bother about cumbersome paperwork and procedure. It’s much faster. This is the transaction cost one talks about. So most of the poor feel comfortable with this arrangement and they don’t mind paying 5-7% more to get these services from an [MFI].”*

5.4.2 Current Indian Microfinance Market

Caspian Advisors and S. Viswanatha Prasad & Vishal Bharat: Caspian Advisors (Caspian) was set up in 2004 by S. Viswanatha Prasad, a veteran in the Indian microfinance market who among other things helped Basix as the CEO to become the success it is today. Prior to Caspian, Mr. Prasad was heavily involved in changing the Indian microfinance market. Prior to his and Basix’s lobbying efforts, foreign investment in India was not allowed to finance MFIs. Furthermore, MFIs were unable to charge a rate of interest to their borrowers above twelve percent under the differential rate scheme. This among other things Mr. Prasad was able to change which significantly altered the way MFIs currently operate. Vishal Bharat has worked within the corporate banking sector for over 14 years until he joined as the Director of Investments at Caspian Advisors. Although working mainly in the corporate sector, Mr. Bharat has had over 20 years of experience working within the microfinance sector.

Caspian has become the first private sector microfinance equity investment fund to be set up when in 2006 the Bellwether Microfinance Equity Fund was created. More recently, Caspian became advisor to

an offshore microfinance equity fund catering to individuals interested in investing in the Indian microfinance market from abroad. Caspian now handles around sixty million dollars that are invested in small startup MFIs to help them grow through advisory services as well as startup capital. They plan on working with companies for a five year period and once sufficient value has been created within the company they plan on selling their share either to a larger MFI or other eager investors. So far they have not sold any of their capital in the companies although they plan on doing so within the next few years.

Current Market and Potential Challenges: There is an unmet demand for microfinance in India where according to Mr. Prasad, only 10-15% of the market has been penetrated. He also believes there are unmet needs for other forms of financial services such as with insurance-based products and Business Development Services (BDS). Because the current legislation in India does not distinguish microfinance from other forms of traditional financial assistance, work should be directed towards finding viable business models within current regulatory constraints. With the growing need for microfinance assistance, MFIs in India have seen spectacular growth and currently the microfinance market is growing at an astounding rate of 70% per annum. Because of this unmet need one can anticipate increased attention from investors.

Although the microfinance market had a chronic lack of professional and well-trained personnel, Viswanatha Prasad stated during our interview that this had recently changed when a transformation occurred from it being a largely philanthropic occupation to one involving long-term career choices for college graduates. Mr. Prasad believed that in the future there would be a human resource deficit and thus one of the main challenges for MFIs would be the training of new staff. Vishal Bharat stressed however that there is an expedient ladder within the microfinance industry where he joked that within six years one should have enough experience to start one's own MFI. Although increasing numbers of investors are being lured to invest money in the microfinance market, Viswanatha Prasad stated there is still a large funding deficit from both debt and equity markets which will have to change in order for the market to grow. This is a similar problem many NGOs faced when they were planning on launching commercial microfinance models when there was what Mr. Prasad called a "the chicken and egg problem." During that time, NGOs wanted to become for-profit models but in order to have that they required a scale in terms of how many people reached. In order to have scale one needed capital which was not available at that time.

Mr. Prasad believed that whether an MFI employed a for-profit or a not-for-profit model was irrelevant because what was more important was the impact it made on the community it served. Most significantly are the services and how those services are viewed by the customers. He believed that for-profit models were able to achieve a greater scale which in turn lowered the interest rates charged to their consumers. Mr. Prasad believed NGOs that were able to operate alongside commercial for-profit MFIs benefiting people while at the same time lowering risk for the organizations. His conclusion were that NGOs should not handle financial transactions and should instead concentrate on side services that are unrelated to conventional finance such as health services and BDS. The real question according to Viswanatha Prasad was how to distribute these side products within an MFI's preexisting distribution channels which they used to distribute financial services. Currently there is no such model because there is no parallel between delivering healthcare and microfinance. In addition, Indian legislation discourages delivery of side

products where for example, MFIs are unable to provide insurance and thus having to circumvent legislation by acting as third party deliverers.

5.4.3 Venture Capital Investment in India

Unitus and Ganesh Rengaswamy: Unitus (Unite Us), a Ventura capital group based out of India, began in 2000 when a number of friends convened to discuss how best they could help in alleviating poverty across the globe. After much research and training, Unitus founders came up with a venture capital proposal where they would invest in social entrepreneurs according to a growth acceleration model. Through selection of social entrepreneurs whose organizations and visions had the greatest potential for growth, investment was channeled through mezzanine financing from Unitus Equity Investment Fund. Unitus has also offered consulting in building leadership directly in the microfinance industry, including SKS and Bandhan in India. Unitus currently works mainly in India with twenty four microfinance partners. Unitas also works in nine other countries spread across Southeast Asia, Africa and South America.

Ganesh Rengaswamy has worked with venture capital for over a decade where he managed private equity funds while working with growth investment and financial services. He is currently the head of Unitus' Indian operation, dealing with 6 million families. Mr. Rengaswamy works by investing a small amount of capital into partnerships and then offers high end consulting services and technical assistance.

Investing in Social Return: Mr. Rengaswamy began his career in venture capital and believed the practical experience helped him to eventually pursue partnerships and investment in Indian microfinance start-ups. Like venture capital investment, the start-ups helped their partners become self-sustainable. He explained that now he is less concentrated on capital return than he is on social return, filling the gaps in underserved markets. Since Unitus has a high end niche consulting team that defines strategy, assists with human resource development, operations and technology, he believed Unitus separated itself from other venture capital companies that tend to be limited in their involvement.

Mr. Rengaswamy believed that microfinance had shifted towards sustainability and away from charity. This helped create a group of energetic social entrepreneurs. Furthermore, he had seen a shift from traditional microcredit to what he called "*social enterprise ecosystems.*" These offered an array of financial and non financial services that had taken microfinance to the next level where the root causes of poverty were addressed such as health care and education and which have attracted more investment, thereby reducing the costs for MFIs in terms of defaults.

Ganesh Rengaswamy had seen a number of new innovations that had arisen from MFIs which tended to circumvent regulations against savings. Such regulatory circumventions included credit insurance workarounds and zero investment products. He believed that legislation of savings would change in the near future. Also, many large commercial companies were using microfinance institutions to market and distribute their products to rural clients which a number of years ago were unavailable to such companies.

When looking at investing in a new MFI Mr. Rengaswamy said that the first step he would take was to look at the social entrepreneur behind the organization. It was also important to look at what he called the '*multiplier affect*' where entrepreneurs had found a niche in the needs of an underserved market such as geographical location, product or an underserved social economic segment. He believed there was no

substitute than sending the founder of an organization into the field so that s/he could interact with the people they were meant to serve. Ganesh said it is too early for the equity investment/ microfinance venture capital industry to talk about returns since there was no available yardstick with which to measure success of an organization. He stated that it was easy to measure the success of a normal company through profit; however, this measure could not be applied to MFIs. Furthermore, according to Mr. Rengaswamy, Unitus valued social returns above traditional economic returns.

6. Empirical Findings

This Chapter presents the finding from the field through interviews with management, employees and clients of ten different organizations that directly or indirectly promote microfinancial services. The previous chapter ended with a brief description of the characteristics of the various legal forms that these organizations take on. The organizations are presented in the following order:

6.1 NGOs:	6.1.1 ANK	6.1.2 Arpana	6.1.3 DISHA
6.2 Section 25:	6.2.1 PSC		
6.3 NBFCs:	6.3.1 BSFL	6.3.2 SML	6.3.3 SKS
6.4 LAB:	6.4.1 KBS		
6.5 Cooperative banks:	6.5.1 SEWA	6.5.2 Mann Deshi	

As mentioned at the outset in practical methodology, in order to gain a holistic picture our aim was to interview management representatives, field officers as well as clients. This was the model we followed to the extent that it was possible. However, structured interviews were not always possible and we were forced to compensate by talking to the people who were available.

The general structure that we followed in the data presentation was to start by outlining the organizational background and services provided. Next, was a management perspective gained from the interview and then we moved on to the views of field officers, and finally presenting the views of the clients. After the interviews we thought to provide a reflective section to also serve as a summary. An organization-specific contextual analysis was also provided in order to sum up the issues that will be discussed in the analysis chapter.

In the case of ANK it is important to note that the field officer spoke almost no Hindi so the field-officer perspective is not as strongly represented. In the case of Arpana, the field officers and management staff often overlapped. DISHA was one of the companies where we occasionally conducted unscheduled visits but were unable to make a trip to the field which is why the presentation in that chapter is different. PSC and BSFL are presented with the standard model as all parties. There, management, field officers and clients were interviewed in depth. Due to a time lag while we were trying to get in touch with SML, we concluded that we were not going to be able to interview them. However, to our surprise we were invited to an interview on one of our last days in Hyderabad which gave us sufficient time to interview management but we were unfortunately unable to visit the field. Therefore, for SML we have the

background, services, management's perspective and a short piece of field officers' perspective that comprises the responses of an ex-field officer that is presently in management.

The chapter on SKS microfinance contains an anomaly, a heading called marketing and communication perspective. This was added because an employee at the marketing and communications department was in charge of our field excursion and remained present during all interviews. SKS was the only organization that we *paid* to visit. Paying could have been associated to the fact that the excursion was set up more as a field trip or from their perspective a sight-seeing venture where a representative showed us around rather than permitting us to steer the focus. Unfortunately, some of those clients could not speak Hindi and so we could not interview. Hence, the section on peoples' perspectives is meager.

At KBS we had the opportunity to witness a conference representing promoters of microfinance from many Asian countries. There were representatives from Vietnam, The Philippines, Nepal, Bangladesh and Cambodia. During the conference global issues of microfinance and country-specific issues were discussed. Part of the training conference included a visit to the field where we were able to talk to the clients, although in that case were unable to talk to the field officers.

Both cooperative banks, SEWA and Mann Deshi represented the full range of perspectives, including management, field officers and clients. However, we found out later that the lady we interviewed at Mann Deshi believing she was a field officer was actually a public relations officer. Her comments had to be viewed as biased. For an overview of the interviews conducted at each organization as well as issues relating to access, refer to appendix E 1.

6.1 NGOs

6.1.1 Ashta No Kai (A.N.K.)

Results based on interviews with the founder Armene Modi, one field officer and 2 SHG groups



The picture shows the end of an SHG meeting focusing on collections. Center left in a pink sari is the group leader.

Organizational Background

Ashta No Kai, meaning, “For a Better Future,” began operations in 1999 when the founder, administrator and life of the NGO, Armene Modi turned fifty years old she decided that it was time to make a difference in the lives of others. Living in Japan, she had the opportunity to access funds by various friends, colleagues and coincidental encounters with individuals interested in development philanthropy. Initially, the intention was to distribute funds to NGO’s involved with development issues in India, however, after a few encounters with non-trustworthy organizations she decided the funds would be best utilized by implementing them her. Armene then set up five organization branches in Japan that had committed to providing capital for a ten year period. Today Ashta No Kai has funded a dairy and is in the process of building one more, provided bicycles for girls wanting to bike to school, built more than 80 toilets to increase sanitation and among other things has organized around 125 self-help groups.

Services

Literacy: Her original goal was to provide literacy to the women of each village. In Japan she had worked as an English teacher and subsequently literacy was of importance to her. According to Armene, the Japanese people believed that education was a priority and thus it was easy for her to access donors. After receiving funding for her five networks and preparing two years in advance of her return, Armene moved to Pune City in the south of India where she believed the need was greatest. However, after noting that more than two hundred organizations had already begun operations in Pune City, and after considerable help from another NGO, KEM, she identified ten rural villages each consisting with a range of 1,200-1,800 hundred people each all south of Pune City.

Bicycle Bank Project: The organization was not only a facilitator of microcredit and savings but also assisted a number of programs with the original mission of livelihood development. After realizing that the women of the village were disinterested increasing their literacy rates, Ashta No Kai realized that the focus would be best placed on the female children in each SHG. After communicating with the local villagers, she noted that there were only two schools for the entire area that Ashta No Kai covered and that often each child would be forced to walk long distances to reach school. The boys were often prioritized and the family would provide bicycles for them instead of the female children. Thus, the Bicycle Bank Project came to life where each female child who was interested in attending school would be able to obtain bicycle on loan. A deposit of 300 rupees was required and would be returned if the bicycle was delivered in good condition at the end of the year. Her precept was based on the precondition that “nothing should be for free.” Some of the girls asked if they would be able to keep the bicycles the following year and then Armene discovered the opportunity for providing scholarships to girls who wanted to further their education and go to university. In 2003 only 9 girls applied but by 2007 the initiative had provided 57 girls with scholarships to further their higher education.

Dairy Project: Inspired by an article on a dairy project where poor illiterate women were successfully running a dairy, she decided to send a group of seven women and three men to an established dairy to show them how much of the dairy process worked. At the same time, she started speaking with local dairies. One of them agreed to set up the infrastructure but demanded a 1 lakh deposit (100 thousand rupees). The villagers were not willing to pay this. When new funding opportunities developed, the focus of the project was changed. Instead of operating a full dairy, women were allowed to own their cows. Today out of 81 women involved in the cooperative, 30 have cows and each month a new member can buy a cow, with the money collected from the sale of milk. Women are averaging a net of 4000 rupees per month solely from the sale of milk.

Toilets: Armene believed that sanitation was necessary for decreasing the incidence of gastro intestinal diseases, debilitating for the very young and old. Thus she started an initiative to construct public toilets in each village. The project was successful and a number of toilets for the community’s general use were built. The waste was intended to be used fertilizer.

Microfinancial services are, like in the case of Arpana, provided through an SHG bank-linkage. SHGs had been formed in the villages from the outset, initially to promote literacy. Armene described using the “SHGs as a platform for social change.” Armene believed that the SHGs provided “a feeling of belonging to a group beyond the family.” She described that “bank accounts were opened with two signatories, if they showed a proper recording of monthly accounts, then the bank would ...after six months, offer loans”. Armene said that they “take a loan of several lakhs and divide it amongst those in the group.” The

interest rate has come down from 12%, so they now pay 9% year to the bank and charge members 3% internally. If the loan is internal (only from the money collected through their own savings) they charge a 3% interest rate.

Management Perspective

The management perspective from Ashta No Kai is based on our interviews with Armene. The first interview was conducted a few weeks before the field visit, a short one two days before the field visit and a final interview after the field visit.

Learning by trial and error: Relating their work to NGOs, Armene stated that, “Work is very contextual as are the dynamics of the people. The SHG movement has been replicated in a number of ways, but some things aren’t replicable. Many factors need to be there.” She explained that socioeconomic conditions, climate and religious beliefs may differ, having an impact on an intervention’s success. When she talked about the projects she had initiated, she described her earlier vision, for example, of teaching women to read. She implemented the measures to realize that vision and when she encountered problems she looked for solutions. She cited examples, one of which was the literacy project that started off very well but after a while had very few women attending. Armene soon realized that despite her own concerns about literacy she saw that the women in the project felt that literacy was not one of their priorities. They did not sense that learning to read would do much to change their lives. Hence, she shifted the focus onto teaching girl children to read.

Perseverance and a Strong Will: are evident factors in the success of Ashta No Kai. In meeting with Armene just before and after the field visit, we were able to get some more insights into the organization. Armene had in fact encountered more problems than she had initially divulged e.g. a computer literacy program that she had received funding for was thwarted by some members of the community. She also encountered problems with the male population when the dairy collection centre was to be built. The initial plan was to make a separate building for the facility, but after protests and threats from the male population (shoving and shouting at the inaugural ceremony when the first brick was to have been placed) she decided instead to provide some of the existing Ashta No Kai Centre building to the new dairy.

Although she had initially decided to exit her development work after ten years she was forced to re-evaluate her own life plan. Her initial objective was to establish a self-sustainable dairy where the women no longer required her assistance. That was similar to her thought about the SHG groups where she felt that the most important thing was that they be self-sustainable. She had been made an honorary member of the rotary society, enabling her to receive additional funding and had also received an additional four lakhs as a donation from the Confederation of Indian Industries. Furthermore, she also received another loan of ten lakhs to found another dairy she hoped that the activities should be ultimately run by the women, however in the near future this did not seem possible.

Additionally, as there were considerable signs of alcoholism in the male population, Armene suggested a signature campaign to the women of the villages as a proclamation against alcoholism. The women then went to the police but nothing was done. Armene encouraged the women to persist and gave them money to rent a large truck where fifty women went to the police stations once again and refused to leave unless something was done. Eventually the police officers gave way and shut down the local liquor stores and

jailed those who showed signs of public intoxication. Thus the problem was eventually mitigated through perseverance and persistence.

View on sustainability: The way Armene conducted business was to pursue projects identified by villagers as paramount of their needs. She saw herself as their partner instead of someone who knew better than they with traditional top-down administration. Her approach stood in contrast, asking recipients what they considered to be their needs and then responding accordingly.

In 1997 Armene began collecting funding for her projects while still in Japan. Funding ceased in 2007. The five groups that helped mobilize funds remained committed to the ten-year program outlined by Ashta No Kai.

Recently, the scope of involvement by Ashta No Kai has been scaled down from ten to five villages. Armene realized that was important to train the people who live inside the village. Even though operations were intended to end in 2009, but because of so many unmet needs Ashta No Kai cannot close and Armene is looking for ways to keep what she has started alive. Some Japanese donors are committed to seeing the operations continue and have stated their willingness to support with monetary and other support. For example, they have arranged for a funding event for Armene in Japan. Armene recently did an audit and found that the organization's accounting was inadequate. She was adamant that people should do their own accounting which she has been successful in creating. She now has 3 paid staff working for her. She feels that it is better to do 10 % properly than to do a lot imperfectly.

Armene is confident that everything will be sustainable. In her view, a woman taking on challenges by themselves is the best way to ensure that the organizations continue to operate: *"We thought the best thing for sustainability was to let the women do it themselves and for them to access money from banks."* Her views have evolved based on several years of experience. For example, a cheating staff member told the women of the SHGs that if they gave the savings to him, he would deposit it in the bank. However, the employee ended up stealing the women's money. Originally the intention was that the groups were to be supervised by an outsider, however after this incident; Armene stressed the importance of women working independently.

On one occasion Armene decided to discontinue the positions of some of her field staff after noticing they had unduly taken advantage of their positions. Instead, she decided to meet with villagers on her own or with occasional volunteers, stating, *"Internal control is important."* Referring to sustainability, she said that was when *"the groups relied more on themselves. You need to give them information, help to access and then guide them and teach them something, for example, accounting"*.

A major problem within the villages was the lack of access to information. *"For example, villagers should have known they had access to banking, however they were unaware of that access. They didn't even know how to open a bank or savings account."* Armene also stressed that sustainability of the people is more important than sustainability of the organization. She believed the funds from the organization should be used to, *"Teach, train, enable and empower. We are not beneficiaries but partners with the people if there is to be any successful implementation."*

View on HR: Armene had only three employees working for her. She used to have many more, partly because the need was greater when forming and training personnel for the SHGs but also because her

beliefs were slightly different. To provide a few examples of what led Armene to tighten the controls of her organization that led to less staffing, she cited a staffer absconding with the SHG's funds, another, a leader of a federation again cheated members of their money that finally led to a closing of the federation. She also talked about having volunteers during some years, but was disappointed to find out that they spent much of their time in recreation rather than in the villages. As a result, she came to do most of the work herself. She has one lady, Vijayanta Rauta, employed in the village and two other employees.

Networking and the Importance of Contacts: As previously mentioned, Ashta No Kai initially received support from another NGO named "KEM." KEM was working with 30 villages on health issues and suggested intervention in other villages that were not being helped. Ten villages were singled-out. *"In general people don't want to share information, preferring to keep it to themselves. It's a tragedy not to be able to have supportive trustees but Mobile Resource Unit has been helpful. I've fortunately had lots of supporters. At various stages people would come out of the woodworks saying they wanted to help."*

Armene also experienced first hand the detriments of unhealthy competition. TVS for example, the huge motorcycle company started a small subsidiary on the outskirts of one of her villages. TVS went through the backdoor and hired a sociologist student to ask people what interventions had been made by Ashta No Kai and then tried to replicate those services. Armene confronted the management at TVS about the competing efforts but they denied any involvement. Eventually, TVS' CSR wing encouraged one of Ashta No Kai's workers to leave the organization and join TVS for a higher pay, which being an example of what Armene referred to as "unhealthy competition." Armene said that the competing organization wanted to take over once the infrastructure that she had set up, superimposing their organization. In that particular case she eventually decided to leave the village, abandoning her development center to the competition.

Reinventing the Wheel: Armene points out the lack of information-sharing between microfinance institutions. She mentioned the problem as "Having to reinvent the wheel." In that context one was bound to make similar mistakes, going through similar trials and errors. When it came to technology and software, it would have been much easier if all NGOs and banks had some kind of cooperation between them. Armene gave an example of such unhealthy competition between development agencies. The TATA Consultancy created amazing software to teach literacy in different languages. A few years later, a government agency developed new software providing the same services and Armene saw that as a waste of money, when all that would have been necessary was to share that same technology.

Regulatory Issues: To register a charitable trust, Ashta No Kai needed Indian trustees. Armene asked people she knew in this field. Armene said, *"I had no background in NGOs. One of the trustees passed away after which I invited a friend to help who had written books on the subject and she was very helpful."* According to the Government of India, one cannot obtain foreign aid unless one is registered under the Foreign Currency Regulation Act (FCRA). Armene said that the regulation entailed a *"long and difficult process. At the end of the year, you must inform the Home Ministry who wants every penny to be accounted for."* The NGO also had to register with the Charity Commission under the Bombay Public Trust Act. If the funds were not used by the end of the year, a two percent tax on the remaining money must be paid. However, if one can show future plans of implementation using the funds, one could be exempted from those taxes.

Government Involvement: The government has done a number of things that have improved the lives of villagers outside of Pune. Due to the majority of villagers work on farms, the government has ensured that there are clear land titles. In terms of lending, the government allowed only certain banks to mobilize loans but now all government banks are encouraged to connect rural villages with funds. Another government driven program targets people living below the poverty line earning approximately Rs.18,000 or less annually who are given a lot of government benefits. Unfortunately, according to Armene, many of the villagers lie to the government authorities when relating personal income information, thereby hoping to receive benefits for entitlements, reservations in colleges, rations and scholarships. The government has now made both primary and secondary education free for all citizens.

Field Workers' Perspective

The field officer was generally a local villager who had been trained and hired by Armene to attend the SHG meetings. In the case of the dairy, she was also in charge of running the facility arranging for us to meet with the SHG members from two villages. Due to the fact that she spoke almost no Hindi and nobody except our driver spoke Marathi, we were unable to understand some of the nuances. Our driver, Sanjay, was kind enough to do some of the translation.

When asked what her duties as a field officer were, she promptly responded with a list, *“I have worked with ANK for 11 years and I work with the SHG groups, budget meetings, dairy follow-ups, scholarships, the bicycle program....”* When asked if she had noticed a difference in the lives of the people, the field officer responded, *“Before the groups were created there were no cows or buffalos...now that they have their organization, they have been able to save and purchase cows and buffalos. They are able to earn and collect more in the group. People did not know about banking before they started with this group. Now they collect and save money and then after five years it will all be distributed among the group members.”*

We noted some tension in the relationship between Armene and the field officer in the way they spoke about each other. Being the only field officer undoubtedly put a lot of pressure on the field worker as well as Armene.

People's Perspective

We visited two villages and attended one SHG meeting. None of the women spoke any Hindi, so we asked our driver, Sanjay, to translate. In the second village, the women of the SHG group convened solely to meet with us and that provided a calmer social setting where our questions allowed for more time and focus. The fact that the group president as well as certain member in the second village spoke Hindi also helped the matter. Both village organizations have existed for ten years. The women in the second group were considerably younger and seemed to be more literate and only two of them (the eldest in the group) covered their heads whereas almost all women in the first village covered their heads. Although there may exist socioeconomic differences between regions and villages, generally tradition states that women whether Hindu or Muslim, should cover their heads with scarves. Thus, women who are not covered can generally be seen as empowered or 'modernized'.

The first group was rather disorganized and in part it may have been because of communication barriers. They managed to explain that they had one account at the bank but had not taken out any bank loans for the community fund. They had only taken loans on the internally-saved money, charging a 3% interest rate. One woman in the group had taken a loan to expand her farming business and another one for installing a toilet.

Changes Related to the Formation of Groups: When asked what kind of training the women have received from ANK they replied that the training “*Related to their savings, on how to balance their accounts, how to write their names and how much interest to charge.*” The women from the second group also mentioned that they learned about the village council, which they did not know about before and were able to complain to them and get them to arrange a pipeline to supply running water to the houses.

When asked if things have changed in their lives since they became members of the group one woman responded by saying, “*We previously didn’t have access to money. We had to pay 7% per month, accessing money however we could.*” Other women said, “*We did not have a dairy in our village, now there is a dairy and there is a lot of milk going out of the village,*” “*There is more money*” and “*Girls are able to go to school and now they are even going to college. This did not happen before, everyone is studying now*”.

When asked about the benefits of the group and the most important features for e.g. saving, loaning, the social aspect, the women respond “*There is now the benefit of saving money; it has to be used in the farming.*” When the second group was asked about the savings function, the group leader responded, “*They are very important.*” Unlike the first group, the second group used their bank-linkage to avail a bank loan.

When the second group was asked what they had taken out loans for, one lady responded that she took a loan for her son’s marriage. Another woman had bought a goat, financed through an SHG loan. The women were asked if the field worker attended all their meetings and they said she did, adding, “*Whenever I have the time, I try to come,*” pointing out that she had many responsibilities. An interesting observation included the president of the group had stated that the groups would not function if she was not present. However the other women of the group sharply dismissed this statement and expressed that they function just fine without the president present.

When talking about the changes that have occurred in the village with the SHG groups and how Armene was able to win their trust, the group leader had stated, “*Well, first there weren’t so many groups. Maybe it’s because the women did not completely trust what was going on, but now there are many groups so the trust must have grown. There are 23 groups.*” Also, the group leader added, “*Ten years ago the women were afraid of showing themselves outside their homes but today if madam is coming or even the Gram Sewa, women show up. Before the women were more afraid of the men and wouldn’t show outside the house.*” Speaking about the benefits of the group on an individual level, the group leader said, “*Everyone puts in a drop and together we can get things done which we wouldn’t be able to do individually.*” Before the SHGs were created, if the women needed money, they asked the richer people in the village for a loan and sometimes had to pay up to 10% in interest. The group leader in the second village added, “*Yes, and they also asked for other things, like papers....sometimes we had to ask the rich people in the village and*

they also took in writing that they would take our farming [crops] if it wasn't repaid until a certain date, they would take it in writing."

Another interesting fact was that only one of the group members, the leader, had an individual savings account. When asked how she thought of the idea of opening her own account she replied, saying, "*First when the group was started saving, then I got the idea that perhaps I should have a savings account of my own also and that this would be good.*"

Thoughts about Ashta No Kai: The women spoke very highly of Armene. They mentioned that she stimulates everyone with her presence. They commend that she learned the local language to be able to communicate with them. They felt they could talk to her about their needs.

Other Observations and Contextual Setting

In the first village, Armene had accomplished much with girls getting bikes for schools, SHG groups, the dairy cooperative, computer literacy, the installation of community toilets and general literacy training. The first village had 24 groups with 10-15 women in each group. The poorest and those that have been widowed received cows for the dairy program.

Meeting with Armene after the field visit allowed light to be shed on some new issues that previously had not been discussed. We had, during our field visit, briefly spoken with the village council leader, who we later learned had murdered his mistress in a drunken rage. She also informed us that some of pledges and other issues related to the SHGs were most probably staged for our visit.

The toilets did not smell which made us question whether they were in use. According to the villagers, four people used them. There were 69 toilets in total in that village. According to Armene most of the toilets were not in use.

The villages that the researchers visited varied quite significantly in terms of infrastructure. The first village had a sizeable school with deteriorating school benches and a black chalk board and a recreation room which had been built by Armene and was considerably well kept. The second village had no visible school, however, a large temple was being constructed which seemed to be quite costly.

The first meeting was conducted at a house that had dirt floors and a tin roof; however it had a satellite dish on the top of the roof which was obviously very expensive. Approximately half of the women at the meeting had not covered their hair with scarves and were generally younger than those that did. The second house on the other hand had paved floors, a tin roof and numerous amenities including a well stocked kitchen. The only women to have covered their heads were the two elderly women out of a group of 9, although we noticed that the majority of women were much younger than in the first village.

Those people interviewed explained that the main source of subsistence for the villagers was farming through the production of wheat flour, onions, cauliflower, ochre, lentils and beans. Their means of distribution seemed to be very rudimentary and were mainly sold to an agent who then auctioned off the vegetables.

Company Specific Initial Analysis

Reliance upon one field worker created a clear situation of hubris. Armene admitted that she had seen signs of this. Armene will have to delegate more responsibility to more people if she chooses to scale up her operations. Furthermore, she will have to create a formal internal auditing system to ensure that potential for abuse is mitigated.

Women were obviously quite dependent on Armene. It appeared that they could not change their status without her assistance. Thus, Armene would be required to implement effective business development and side services so as to empower them to make decisions independently. To become more efficient SHGs should consider a tiered federation system, where each SHG would be linked with other SHGs. That would enable women to access larger amounts of credit and to effectively execute programs that they would otherwise wish Armene to do. Many of the programs that Armene had implemented failed due to the women's own reluctance although they had requested them from the beginning, an obvious indication of miscommunication. Further research in new program implementation is recommended.

6.1.2 Arpana Trust

Results based on interviews with Aruna and Deepak Dayal, Anne Robinson, several field officers and two SHG groups



Mishka conducting an interview with the two accountants who work with the SHGs. Aruna Dayal can be seen to the left translating and explaining about the collection process at SHG meetings.

Organizational Background

Arpana, meaning ‘offering’ as in sacrifice, has had both an interesting and dynamic history. Set up as the Arpana Trust in 1962 by Param Pujya Ma, Arpana’s original mission was spiritually based, employing the philosophies of Vedanta. Arpana’s founder and spiritual leader believed in obtaining spiritual enlightenment through practice and requested everyone at the Ashram to work within the community on developmental issues. Following a pattern that established itself as the norm, Arpana first examined needs and wants. That was in contrast to coming up with funding and then searching for a recipient. Arpana’s development services began in an organized manner when the hospital was established in 1980 along with Arpana Research and Charities Trust. Government regulations mandated separating the spiritual from the development areas. A similar entity was set up in the United Kingdom in 1995 to access foreign funding where proposals for funding would be sent to Arpana UK that would act as a liaison.

“Since then, people from different walks of life were drawn to Param Pujya Ma, and have experienced the fragrance of this divine home. They found a new dimension to life in imbibing the spiritual truths so sublimely told by Ma and manifested in her life, strengthening the faith of each in their own religion. The members of Arpana are volunteers from different lands, faiths and social backgrounds, including many professionals with considerable experience, learning to practise selfless service. Together, they seek to assimilate and practice in their lives the eternal values taught by the prophets of all religions throughout the ages. This is their commitment for life.”¹³⁷

Arpana’s mission was defined by Ma from a spiritual perspective. Her approach to development was to put oneself in other people’s shoes and not think that one’s own (opinions) were always that fitting. Aruna started to apply this philosophy to most things in life, which she admitted was hard due to her believing that sometimes, *she* was in fact right. *“It is an exercise in evolution actually. It’s not easy to give up one opinion and accommodate others.”* This lesson was one of the steps taken that was worked into the ethos by the employees at Arpana that Aruna described as a ‘participatory model.’ *“This helped to open oneself to what people were saying. It got worked into the whole ethos. One thing that she said at one point, but when it became integrated into my life, it helped me value so many people for their own worth, their intellectual contribution and even for the emotional perception of the subject. It helped me become inclusive. And that’s one of the main principles of development. I’m not a development professional. I don’t know anything about it. But this enabled me to understand what development is. Immediately when we had trainers coming from outside we talked about participation. That’s one feature helped me understand what they were talking about.”* Aruna explained the importance of practical spirituality: *“Understanding that you are a human being, just as much as I and your needs are more important than mine because I have come to understand your needs. These little principles of spiritual...practical spirituality or spiritual values, they are the whole basis of development that we found as we went along.”*

Services

It was soon apparent that there was a need for better health care in the surrounding villages Arpana members visited. They began by immunizing children and infants and soon realized the need for prenatal care and education of the women on health-related, especially those concerning pregnancy. Arpana also began raising funds for mobile clinics. The mobile clinic conducted health checks on pregnant women and also began screening for eye diseases. Cataract operations were conducted on site in the villages and

¹³⁷ Arpana website URL <http://www.arpana.org/spiritual-arpana/Arpana%20Ashram.html> [cited 2009-09-07]

although most operations were successful, the risk for infection was large. In collaboration with an ophthalmologist in Karnal in the late 1980's, Arpana received the attention of ophthalmic centers around the world interested to fund their operations. That led to the creation of an ophthalmic center that today forms one of the five wings of Arpana hospital. What started as a 10-bed hospice in 1980 has 29 years later grown into a 135 bed, full functioning **hospital** where five core services are now provided including, ophthalmology, gynecology & obstetrics, general medicine, general surgery and dentistry. Another smaller hospital has been built in Himachal with funds received from a UK trust.

Rural development through understanding the needs of locals has taken several forms over the last two decades. Arpana today provides a range of services entailing empowerment of women, economic emancipation, human rights, accountability in local governance, village health inputs and support to farmers, education, and facilitation of microfinancial services in the form of SHG bank-linkages. Arpana's approach as an outreach facilitator had been to provide an array of in-depth development services.

Microfinance Services-The Arpana Approach: The most important development for the mobilization of financial services to the rural poor had been Arpana's creation of Self Help Groups. As Anne Robinson stated "*A holistic approach has been used by Arpana.*" That could be seen at the meetings we observed where the women seemed empowered and spoke proudly of their accomplishments.

The provision of micro-loans had been in the form of an SHG bank-linkage. Hence, the women were grouped together and a president and secretary elected in each group. Each individual in the group then saved a small amount of money each month. That fund was then used to disburse loans to the ones who required them the most with the excess deposited into a bank.

As of recent years, Arpana has also started disbursing micro-insurance on behalf of a government initiative through LIC (Life Insurance Company). They earn a small commission for doing this and are like other NGO's optimal distribution channels as they know the people in the villages. According to Mamta Rehal, a member of the Arpana family, Arpana has over the past year successfully disbursed 15,000 life-insurance policies. The insurance is subsidized by the government and costs 100 rupees a year.

Management Perspective

Leadership and Spirituality is at the core of the organization which is built on the scriptures of Param Pujya Ma (the founder of the organization) in the light of Vedanta. It became apparent by talking to the members of the Arpana family that each member was deeply inspired by Ma's teachings. She was the common factor of inspiration for all those who are a part of Arpana today. Ma passed away in 2008 but the spirituality and dedication to serve still lives on.

A Dedication to Serve can be seen in various ways. The belief is in working directly with people instead of forcing them to change. Deepak Dayal said, "*Arpana doesn't want to become a suppressor.*" He mentioned that Arpana had withdrawn from several villages that were operating sufficiently on their own, believing they should have acted as "enablers." He also stated that they strove for, "*quality over quantity...[it took] 10 years to build one SHG, [and they have been] working with villages for 20 years.*" Deepak provided an example, "*The population growth in 60 villages has come down to zero, however, this was not done through force but through education and empowerment*".

Arpana acknowledged that creating self help groups took time and the women may not have seen the results right away. She had first to convince the women of the importance of the SHGs. She explained the process of nurturing groups through a metaphor of nurturing a tree, where, "*First you prepare the soil,*

then plant the seed, then you protect it from the cold...in the formative stages, when it sprouts you put thorns around it so no one gets at it...and then it flowers into a healthy plant and it gives fruit. You have to explain this to the women.” Aruna admitted that SHGs take a lot more effort to build compared to a microfinance joint liability structure which is more expedient. “You have to keep explaining to them that this effort...you are the sole beneficiary of the effort. You have your savings, you got your interest, you are not paying interest to any third party, and you are able to take loans continually.”

A Need Based Perspective seemed to be the way Arpana worked. When a need was seen, work was directed towards it. Arpana believed in helping people by understanding what their needs were: seeing a problem and finding a solution. For example, after conducting blood tests Arpana realized that the women and their children were anemic. They also noticed that they could not afford large seed packages to start their kitchen gardens and thus Arpana prepared and sold smaller packages.

The people at Arpana identified needs and then developed projects on that basis. Staff did not necessarily specialize in their fields, e.g. Aruna was an English professor and she started working in maternal and child healthcare. They did not have a blueprint to go into development work. Their mission was to identify peoples’ needs, to help those overcome barriers and to enable them to build a better life for themselves based on their potentials. The different ways that the mission was implemented was based on their capacity and resources.

Microfinance came as a solution to the problem of women with little or no education, of living in the shadows and having no say in their own financial affairs. Furthermore, Arpana saw the need for women to have a collective voice in order to be heard, so it was a natural process for them to decide to use the SHG model. These groups also provided Arpana with a platform for education which they believed was important in their empowerment. That led to women being more involved in village matters such as organizing monthly village council meetings and deciding over affairs in their households.

Arpana’s View on Sustainability seemed to be one of empowerment and far-sightedness. At the hospital they planned to start a private sector wing where more affluent patients could be treated. Those would be charged standard fees; the profits would in turn be used to finance the rest of the hospital where the services were heavily subsidized. Anne Robinson also acknowledged their need to try to expand their equity funds. Arpana was also looking towards training other NGOs new to the area and in particular, to the area of fund raising.

When Aruna talked about the sustainability of SHGs she hoped to link all the federations together so that they could hire their own fund manager. That act would also be considered as another sign of self sustainability. At the same time, Aruna explained that she felt that it would be unfair if Arpana was to leave the groups forcing them to manage on their own. Arpana is looking toward a federation model in order to create self-sustainability. Aruna hopes that eventually all the federations could be linked and run by a fund manager who will invest the federation’s money and ensure that their assets grow. However it is an uphill battle due to many of the women being illiterate. Aruna estimated that 65% the members of the older groups were illiterate and the rest are only semi-literate. That made it hard for the groups to grow because many of the women were unable to be management material.

In order to tackle the illiteracy problem, Arpana pruned the executive body that represented the SHG leadership, down to 11 members with each in charge of 10 groups. Aruna believed that transparency through democracy was the key in order to ensure the success of the groups. Each federation that would be formed, (there were then two), would have an executive body. To make certain that the women could handle that Arpana trained them in a number of basic modules of leadership skills. Arpana would then function as a capacity builder to monitor, plan and evaluate.

At the same time the organization faced an insurmountable task of restructuring and regrouping, both the spiritual leader and their managing director died. While 'Ma' had the charisma to keep the organization focused her counterpart managed the operations and financial end. The crisis was partly solved because 'Ma' delegated a great deal of work before she passed away. Aruna believed Arpana was able to survive because of the quality of their work. Aruna admitted that when people came and saw their operations they were extremely impressed and thus, operations have been able to continue. Because investors were able to see the quality of their work.

It became apparent from the interview that Aruna did not view MFIs as a good alternative to SHGs and she admitted to losing 13 members to MFIs in her Delhi operations because they had gone against group policy and taken loans outside the group. *"It plays on the element of greed rather than far-sightedness. And it makes people do wrong things."* The point was elaborated upon when she explained that a group leader had forsaken responsibility by taking multiple loans from an MFI, forcing the group to be restructured. She understood that MFIs had to be managed in a professional manner. She however pondered whether they were actually interested in development work. *"So what does an MFI come and do? He says: come, form a group, write down your names, give your bids, give a guarantee from your husband and here are your papers: sign them. These are the installments and here's the money. You don't have to come for training sessions; you don't have to do anything. You just have to take the money and come next month and bring your payment."*

Funding is always an issue and for Arpana, which is an NGO, the major form of funding is through grants. Securing grants to finance their operations is a lot of work. According to Anne Robinson, an NGO requires contacts to secure funding. For example, Mr. Sabhawal, the late director of the organization, had served on many boards prior to working at Arpana and through his contacts in the corporate sector he was able to secure endowments and other funds.

According to Anne, *"An awful lot of people slip through the cracks."* They might be living below the poverty line but they do not get BPL cards. Arpana is negotiating with a consultancy firm to help them start a fund raising unit in Delhi. Anne reiterated the fact that they wanted to start a training unit in order to receive some extra funding.

Deepak acknowledges that Ma wished to keep a low-profile which was a bit of a disadvantage for the NGO in terms of securing funding. She believed that in the spiritual ethos you have to keep check of your ego. Deepak recalls an anecdote when Arpana was awarded a very prestigious WHO award, and 'Ma' responded by saying *"put it in the closet."* Although Ma was no longer alive, Deepak still believed in the framework that she once established. He explained that she had a wall built between their residence and office area as a symbolic separation between work and private life and said that a penny from one side will never be seen on the other.

Government Involvement: The Indian government had increasingly been involved in a number of development issues targeting the rural poor, especially those living in BPL conditions. Due to the increasing involvement of the government in the area of Arpana's operations between 1998 and 2000, Arpana shifted its focus from being *"a service provider to becoming an enabler."* Arpana saw that a number of the services that the government provided overlapped those that the NGO conducted. Creating a sustainable system through the empowerment of the local people became a priority. After visiting successful microcredit programs utilizing the SHG approach in Hyderabad, Arpana and specifically Aruna began working on the creation of SHGs in the Karnal area. This process of reconstruction was intensive for the Arpana staff as they consulted with various NGOs and advisory agencies to train their staff. After considerable training, 6 pilot SHG groups were set up. Today, over 250 SHGs are operating around Arpana's headquarters with over 3,200 members in 62 villages with a combined savings of 18 million rupees

According to Anne Robinson who is in charge of administration, “*Recently the government has done a lot. They always have good schemes but in the end nothing materializes. Doctors and staff allotted to the villages almost never come and when they do they have no equipment, no medication. The people of the villages have no faith in them.*” Arpana had worked substantially with the government. They were able to help the government in terms of the aforementioned health insurance and tests. Arpana allowed people to actually utilize schemes the government had implemented. Arpana is not big at the level of affecting policy but they have a way of working with the government, helping the benefits reach those who deserve them. Because of its grassroots orientation, Arpana can be seen as a vehicle for federally-launched initiatives that do not seem to work everywhere because the governments inability of proper implementation. Arpana enforces government initiatives by ensuring that villagers are aware of the programs and providing up-to-date services that the government has promised through their hospital and their literacy programs.

Field Officers’ Perspective

According to one field worker who had been working with Arpana for ten years, the women were afraid of outsiders, especially with money matters. The order of trust went both ways. Once the workers had built rapport with a number of women, they would tell them to go into their villages and find other women whom they trusted. According to the field worker, women started forming groups on their own because of the spread of information through word of mouth about the SHGs. “*When you start dispersing information.... the information spreads to other villages where they have relatives....and they say that the women in these villages also want to create groups and want help and then they take us there....because we don’t know these women but they do so they take us there....and even their men also said that they would also come along.*”

She explained that in the beginning, men were not supportive in the largely male-dominated area of finances. However, after they witnessed the fruits of Arpana’s labor with the women they changed their minds. The largest change that Harsha could notice was that women finally lived in better homes and had money in their hands. The accountants have seen considerable improvement in the women’s ability to control their finances since they started working with the groups which was only two years ago. The literacy rate in the newer groups is much higher.

Arpana graded women’s groups as to tardiness, repayment of loans and other negative traits, thereby creating an impetus for them to ensure they improve before the next audit. It was important that one woman does not become too dominant a force in a group because if that happened, the chance of that woman receiving a loan increased but so did the chance of her default and that loan. According to the accountant, some groups have had to be dissolved because of one woman dominating the group. Arpana used to run all the groups but now around 80% of the groups conduct their own meetings. Arpana is currently focused on running the federations and has created an executive body to oversee that work. Arpana has created a system where a percentage of money is given to the group so that members would be able to pay for their own expenditures such as those either relating to the groups (purchasing calculators) or to making money available to the federation (to be used as wages for their executive members). Each group would be required to have a saving account at the bank. Most groups traditionally solicited the federation when borrowing larger sums of money; however newer groups now use the bank for temporary loans.

As Aruna explained, it was important that the field workers *included men*. Arpana used male field workers to explain to the men what Arpana was trying to do and why the SHGs were important. If the men were left out of the picture they might have obstructed the workings of the NGO such as in Ashta No Kai’s case where the men sabotaged projects.

Women's Perspective

The groups were able to save an impressive amount of deposits from their members. One group had 4.5 lakhs, i.e. \$10,000 saved between 20 women, albeit that particular group had been functioning for eight years. The interest returns that were generated stayed within the group that in turn lent to its own members, ensuring that funds remained within their community. Many of the women used the money to start small businesses such as animal husbandry, retailing and small-time manufacturing. The women were quite focused and energized and had collectively campaigned against alcoholism, dowry and female infanticide. Approximately 75% of the members became entrepreneurs, starting their own businesses. Some of the funds were also used for education and health care. It seemed that Arpana facilitated the sale of milk to a local milk collection center whereas they once sold it to a vendor for a lower price.

The federation was important because the members that needed larger loans were not constrained by a limit. If needed, they could borrow from another federation. One woman did that very thing and helped her son start a successful business that earned up to 4 lakhs a year. It seemed that tradition still reigned supreme. Although the women were sending their girls to school they still forced them to marry when they turned eighteen. Some of the loans were used for such things as weddings and some were taken because husbands wanted the money. Most of the women learned about the groups through other women. The women were quite adamant that they would continue going to meetings even if the field workers were not present.

The women no longer have to rely on their husbands for sustenance and more importantly, they do not have to ask them for money when they need to buy medicine for their children and other vital things with the risk of being rejected for the request. The women were still not allowed to ride bikes although the younger generation was allowed to if they required them to go to school. There were albeit slow but definite signs of change in the villages. Many of the women answered that their husbands understood the importance of the groups.

The second village functionary of the federation said, *"They say it is very good and they understand that when we forgo wages to attend these meetings it is for the whole family's benefit...."* That shows the level of their commitment when foregoing wages to attend the meetings.

When asked what had changed since they started being members of the SHGs, the obvious financial benefits would seem to have been the first answer. Often women explained about the know-how received from Arpana's workers. One woman exclaimed that, *"Yes, we have gotten a lot of 'jaankari' [knowledge] by being part of these groups"* and another added, *"With help of the group we can save some money and we can also rid our selves of worry in that if we need a loan we can access money....we learn things within the group. We didn't know much before we were brought together like this...."*

The literate group seemed to be more self-sustainable in that they felt that they could continue to meet if Arpana were to pull out. However the less literate group was clearly more dependent, but one must note that the literate groups had only been members for a shorter time than the others. Because of other priorities, learning an abundance of information is time-consuming for them, as especially the case with women that work in the field who rely on day-to-day labor in order to survive. One day of learning would mean one day of lessened income. Fortunately, the meetings were only once a month. Although Arpana was also a facilitator for their insurance, Arpana also held training sessions on disease prevention and health care, representing another means of helping the women save money over the long-run. As one of the trainers put it, *"It is very good that we first look at what we can do in the home when a member of the family becomes sick. You said earlier that if a single person in the household becomes sick we can incur an expenditure of between 25 and 2,500 rupees... So if you would like to avoid such expenses, then*

it is very important to have this knowledge. We know a little bit about how diseases are spread, and what the symptoms are. If we know these things, we would be able to spare these expenditures.”

Other Observations and Contextual Setting

The villages varied significantly in terms of infrastructure yet the general scenery showed an impoverished and poor society. Houses varied from formidable structures to shacks held together with cow dung and straw. Preventable disease seemed rampant as for example there were many cases of goiters and leprosy. Aruna

Aruna explained that many of the women could still not leave their houses and earn a living because of the caste system. Impoverished women in higher casts were those most afflicted because of their caste not allowing them to work, thus there was no means of survival except subsistence on their husbands' earnings. In each village we passed it seemed however that the women were those that worked. In almost every field that we drove by we saw women laboring in 48 degree weather without the sign of a man. Furthermore, many of the individuals we spoke to expressed that the men labored less than the women. The impact Arpana had on the women in the villages was apparent when we visited. Where Arpana was present villagers exhibited self confidence and less shyness in contrast with newer members or those who never had contact with the agency.

Company Specific Initial Analysis

Obtaining funding for a low profile company was much harder compared with other organizations that have higher profiles such as large NBFCs. Arpana is increasing their corporate sponsorship by going through corporate social responsibility initiatives. Because of the recession funding has been increasingly hard to come by. The problems encountered are an immediate sign of the move towards sustainability which confirms Sachin Mandikars predictions that the market is moving towards the corporate sector. It is apparent by conversing with Aruna that contacts for NGOs in India are extremely important if they are to be viable self sustaining organizations. This can be seen with the initial lack of funds after Mr. Sabhawal passed away. Once lenders saw the organization and what they were doing, and then they agreed to provide funding. Although their charismatic leaders passed away, the charisma has not been lost. One can see that Aruna and Deepak are very good at presenting the mission of Arpana in a spiritual developmental sense. This was ensured through a strong organizational culture that was based on spirituality. Spirituality provided a strong glue that bound the organization together due to the majority of workers are Arpana having the same spiritual goal of helping others.

Trust of each other appears to be the driving force behind the success of groups, it is important for all decisions to be made collectively, even if they have elected officials. This trust is a key factor in Arpana's success which can be seen in the dealings between its memberships. Once the field workers had gained the trust of the women (which was not automatic), they then asked the women to recruit other members whom Arpana could trust to become responsible participants. It seemed that there was a multiplication effect where when one woman learned something, she told her family who in turn told relatives and so forth, becoming a means of spreading the word about Arpana. Thus, trust is an important factor that determines the outcome of an organization's work.

Empowerment within the groups came through two sources: government and Arpana's own intervention. Without Arpana's education programs women would most likely not have campaigned against infanticide and alcoholism, stressing healthcare needs even if those were not in the immediate interest of MFIs. Their reasoning seemed sound, given that if preventive healthcare needs were not addressed loans might eventually be used to pay for health-related ailments. Preventative healthcare measures should be seen as insurance against costly calamity.

6.1.3 DISHA (Development Initiative for Self-Help and Awakening)

Results based on Group Interview with the management of DISHA; Mukherjee and Jain Shah and the "Annual Report, 2008"

Organizational Background

DISHA is an NGO-MFI that was started in 2000 by providing micro-credit to poor women for income generation. Today, DISHA serves its clients by providing financial services, vocational training and healthcare services.

In their annual report for 2008, the objective of DISHA was described as, *"Uplifting the poor, particularly women, through micro-credit for income generation, providing vocational skills for enhancing income and bringing health care facilities to the doorstep in rural areas"*¹³⁸.

DISHA came to exist in large part due to funding from various Rotary groups, the primary being Rotary Club of Pune-North. DISHA operated in rural as well as urban areas and set various criteria for their clients. In rural areas, for example, their clients were women of small and marginal families with a family income below Rs. 3000 per month. Women participants often came from castes and tribes, were landless laborers or at times were entrepreneurs. In the urban areas, clients consisted of single or widowed women entrepreneurs with an income of less than Rs. 1,000 per month and not belonging to a family and frequently had permanent employment in the government or in a large industry¹³⁹.

DISHA utilized the Grameen methodology where groups were formed with five members each and eight such groups formed a centre. Weekly meetings were held and a small amount of savings were collected during those meetings. Loan proposal discussions and disbursements also took place during these meetings.

Comments of Macro MFI Environment: According to Mukherjee, there were four types of structures working in microfinance in India: banks, NBFCs, Section 25 companies, and NGO-MFIs. The main reason for the change of structure from a NGO-MFI to a section 25 company is to attract investment. Currently, NGO-MFIs are receiving fewer grants because of the economic downturn and are looking towards other MFI structures for assistance.

However, Section 25 companies are not allowed to disburse earnings to their investors and thus they chose to change their structure to a NBFC model. Mukherjee expressed that the main problem with all the models except banks was that they were unable to accumulate savings, thereby creating a bottleneck of funds where organizations are unable to grow their lending capital base. Currently there is legislation in the parliament that he believes will be passed to allow certain registered MFIs to collect savings.

The rationale behind disallowing savings was due to a number of unscrupulous individuals who had stolen people's savings. Mukherjee explained that most NGO-MFIs acted as bank facilitators where their

¹³⁸ Refer to hard copy of, Annual Report of Development Initiative for Self-Help and Awakening (DISHA) For the Year Ending 31 March, 2008

¹³⁹ Refer to hard copy of, Annual Report of Development Initiative for Self-Help and Awakening (DISHA) For the Year Ending 31 March, 2008

main goal was empowerment of women, doing so through the SHG model. The government is currently pushing for banks to subsidize loans to self-help groups, creating some apprehension on part of bank managers because of the risk-orientation. Bank officials see the SHGs as having a probability of default.

Registered companies, on the other hand, utilize the Grameen Model either through joint liability groups in rural areas and individual lending in urban areas which are “high cost, high efficiency and high return models.” Mukherjee explained that urban women have a heterogeneous culture because they usually come from different parts of the country which does not enable companies to utilize the trust-based JLG model. The reason why the NBFC model has been so successful was that they provided the service of convenience. Mukherjee believed that the disenfranchised women were willing to pay extra for the convenience of having an MFI do doorstep banking in a clean and efficient manner vis-à-vis banks that had were burdened with time-consuming bureaucracy and paperwork. He gave an example of how traditionally women used to cook with cow-dung which was free, however time consuming. Although gas stoves were considerably more expensive, rural women switched to gas cooking in order to save time. *“Convenience plays a big role in microfinance. Money reaches at the hand. And directly at the hand and during that time the bank opens at ten thirty. The women have to go to work at eight thirty. They cannot go to the bank and lose one day of income. And they don’t know if they will be able to take care of everything in one day because the bank staff is not that sensitive towards these small groups. So all these makes a very big difference.”*

Today, 70% of the microcredit is conducted in the southern region of India, with minimal growth noted in the eastern part of the country. Mukherjee explained that Maharashtra, Gujarat and Rajasthan and the northeastern states have until recently had no large MFIs working there. Many had studied that phenomenon of why the south had more microfinance activity then other parts of India. The conclusion was that credit had long been a tradition in the south and thus the MFIs had used that history to their advantage. Furthermore, development in Maharastra and Gujarat had been more extensive than in most of the southern states.

Challenges: Mukherjee believed the greatest challenge facing both DISHA and the microfinance market was the legislative and governmental environment in India. *“There should be a level playing field for all types of organizations. Now NBFCs are in the forefront. Five to six NBFCs control the number of members that all other types of organizations cannot service.”* Mukherjee explained that at the moment NGOs were only making an impact on a grassroots level. Secondly, there was a flow of funds problem for smaller organizations like DISHA where it was virtually impossible to raise capital to service clients. The smaller organizations often faced stringent funding requirements. Furthermore, to decrease fraud, increase efficiency and lower transaction costs, technology would have to be developed for DISHA as well as the microfinance market. He believed that government subsidies also posed a challenge to the microfinance market. There were a number of government run banks that charged a mere 4% interest rate on loans which he believed most MFIs would have trouble competing with. He also explained that many local leaders were advocating subsidized credit to strengthen their political status.

Change in DISHA’s Structure: DISHA had the legal structure of an NGO but traditionally had a Grameen model where they utilized group lending. They recently began to shift to an SHG model. Unlike most NGOs that act as bank facilitators, DISHA started to lend directly to the SHGs from their own funds at an 18% declining interest rate or 10% flat. Formally, DISHA was registered as a trust and

was not allowed to disburse money back to its investors and thus relied on grants and debt. Mukherjee explained the shift from a Grameen JLG model to the SHG model was due to the interest rates. Most NBFCs charged a 15% flat; however through an SHG model interest rates were generally lower. DISHA used internally-generated funds but also borrowed from government sources such as the Small Industries Development Bank of India and SIDBI that charged 9% interest. Thus with they had a margin of 9% which they used to cover their transaction costs. Having an SHG structure where they lend directly to the women gave them better flexibility according to Mukherjee. If the women were to borrow directly from banks through an SHG model they would inevitably disburse the loans to a number of women in the group. Thus if another woman would require a loan she would have to wait for the other women in the group to repay in order to receive funding.

Having an SHG structure also allowed DISHA to provide other services alongside that of credit-lending. They planned on covering two additional areas: health and business development services. Jain Shah explained that the majority of household costs went towards covering healthcare needs and thus they wanted to control those costs by providing primary healthcare facilities. DISHA also planned on providing business development services through a fee-based system where they would subsidize 25% of the costs, anticipating that the recipients paid the other 75% themselves.

One of the main benefits of utilizing an SHG model vis-à-vis a JLG model was the lower transaction costs. Jain Shah explained that members of JLGs had to meet once a week, but since they started to implement an SHG model the field workers were only required to meet once a month. Additionally, since members of SHGs were required to be accountable for their actions that allowed field workers to cover a larger number of groups which lowered some of the transaction costs.

When we met with DISHA they had 4,500 members that were utilizing the Grameen model and 20 SHGs. Their work covered 60 villages with two main branches in the Pune district of Maharashtra. They were in the process of giving out their first loan to the SHGs and transforming the JLGs into fully-functioning SHGs. They hoped to have 60 SHGs by the end of the year.

Competition: Mukherjee explained that in the areas that they operated, informal money lenders were “virtually everywhere.” He explained that DISHA’s customers would look at all methods of receiving financing which included informal money lenders that charged usurious interest rates that often amounted to 120% per year. In terms of formal competition DISHA has an interesting outlook. *“We like competition. Competition is good. If you are there in a village and you prefer to go someone else, that is fine. We want to help them.”* Mukherjee explained that if there were other organizations that charged cheaper interest rates he would be happy if they were to go to that organization because in the end they are concentrated on helping the women. When asked about “overlapping” of individuals being lent to by numerous organizations, he explained that, *“Overlapping can be there. For instance we are working in the Maral area and there is an MFI from Calcutta that is working in the same village. If their service is better for the poor, we withdraw. There is no harm in withdrawing.”* They have had direct competition with other organizations which Mukherjee considered to be a healthy relationship. They had approached another NGO working with SHGs who had the same view on competition, welcoming them to operate in the same village.

View on HR: They had only have two field workers and one branch manager that worked with the self-help groups but planned on increasing the staff level once more groups were converted from the JLG structure. Mukherjee explained that DISHA used the “Cashpor model” where all transactions were conducted through the use of bank checks. When a new loan was given, the women were given a bank account. They then had to go to the office to pick up their funding in the form of a bank check. At the same time they received prepaid postable checks for repayment of their loans. The rationale behind a check-payment system resided in the questionable reliability of employees. Mukherjee said that field staff who worked at DISHA were often themselves poor and thus there always existed a degree of risk if they were to handle cash transactions when disbursing and collecting installments.

The check system had initially created problems with the bank staff because of the high number of transactions they had to deal with. However, after some convincing the bank was able to accommodate the methodology. There had been some evidence of fraud within the organization with most of the abuse coming from the clients they served. Mukherjee explained that those with significant influence in the group tended to take most of the loans for themselves. Lending abuse could be mitigated through diligence, as Mukherjee stated, “*Eternal vigilance is the price of liberty. You have to be vigilant..*”

Company Specific Initial Analysis

Lenders have been traditionally interested in convenience. They tend to be willing to pay higher rates of interest rates to have the convenience of an MFI conducting doorstep banking. Since DISHA received money through government lending sources (which most likely are subsidized) because of their NGO structure, they were able to lend the money to women through a SHG model at lower rates than if they were an NBFC. The SHG model vis-à-vis JLG model had lower transaction costs because the members of SHGs were held to be more accountable. Because transaction costs were lower they were also able to offer cheaper loans to clients. Having an NGO-MFI structure tied an organization’s hands in being able to raise equity. On one side they were able to raise debt; however at the same time they were unable to disburse dividends to their investors because of their company status. Thus they were at a competitive disadvantage that hindered them to properly scale-up operations through the use of equity investment.

DISHA had a straightforward view on competition that focused on who could benefit their customers the most regardless of who provided the people. Instead of viewing competition as something negative, DISHA understood that in the end it was their customers who would benefit. Thus, if another organization provided better services they would be agreeable with client wishes to switch to another organization for financial services.

6.2 Section 25 Companies

6.2.1 Planned Social Concern (PSC)

Empirical findings based on interviews with the CEO Revi Gupta, branch manager Satender Pareek, one field officer and two JLG groups



The group leader of one of the groups visited at PSC working on the accounts.

Organizational Background

“As one of 25 Grameen Bank replications, PCI (Project Concern International) India established its first microfinance institution in December 2005 as ‘Planned Social Concern’ (PSC). PSC began with seed funds from the Grameen Trust of Bangladesh and investment capital from a group of Americans. PSC

plans to consolidate and expand its microfinance portfolio by substantially increasing its outreach of all microfinance activities with a target population of nearly 500,000 and 50,000 loan clients by 2015.¹⁴⁰”

Planned Social Concern was split from the multinational NGO Project Concern International. PSC was the brainchild of Ravi Gupta who was in charge of PCI's microfinance wing for seven years. Although relatively small with a total of nineteen employees which included twelve field officers, the organization had been successful in receiving private funding from social investors in the United States as well as seed capital from the Grameen Trust since its commencement in 2007. Currently they have two regional offices in the city of Jaipur in the state of Rajasthan and one head office in Delhi. According to Ravi, PSC hoped to open a total of five branches and one head office to serve 10,000 clients by 2010. If they would succeed they believed they would be completely sustainable.

In order to scale up operations and serve more people, they will require an additional 2 million dollars in addition to the 1.2 million USD they currently have in equity. However in order to expand they will have to increase their debt quite substantially in order to scale up operations which is quite typical for a new organization. *“It's an ambitious model, but it will be necessary to survive.”* According to Ravi, PSC's operations currently are financially and operationally sustainable because they control their operating costs and have not expanded their focus.

The current legal status of PSC was as a section 25 company where earnings were required to be reinvested within the company. PSC utilized the Grameen lending model where individuals interested in obtaining loans from PSC would have to undergo initial training. Their subsequent testing of the applicant's grasp of basic financial literacy as well as understanding the PSC mission are prerequisites in qualifying for a loan. The organization lent to a group of 15-20 people but they were able to lend to individuals within the group. Such a model enabled them to ensure that possible defaults were secured by the group to circumvent the need of collateral. Each group had a leader with a core of four groups that elect a center leader.

Once the initial training process was complete, a group recognition test (GRT) was conducted on each member. Members were then able to apply for business loans by collecting the money at one of PSC's branches that was paid to them by check. Loans were given in four increments. Once the first loan was repaid the member was eligible to receive a higher loan. The first loan began with 8,500-10,600 rupees and increased from there to a maximum of 23,400 rupees. PSC took 100-150 rupees processing fee and 50-150 rupees as security deposit, also charging a 27% declining interest which typically turned out to be 18%. The collection was done weekly at group meetings. When interviewed, PSC had a total of 324 groups and 284 centers. The field officers are finally required to do random loan utilization checks to ensure the money lent was being used for business purposes.

Services

Although PSC was separate from PCI, in reality the two organizations were interlinked where both organizations used the same finance department and had the same CFO because of the newness of the

¹⁴⁰ Official website project concern international India, URL http://www.pciindia.org/html/Prog_PSC.html [cited 20090907]

organization. PSC did not offer any services other than microcredit. They hope to offer insurance through a third-party and the government. Working with PCI they hope to offer other services such as water treatment and health care because of Project Concern's expertise in those areas.

The organization had a clear sense of its mission. Ravi explained, "*We want to see a day when everyone in need can get easy access to affordable loans along with the skills and education so that they can help their family out of poverty.*" Written on the walls of each office one could find in green and then red text, "We invest. Not lend."

Management Perspective

Competition and Competitive Advantage: When PSC first arrived in Jaipur there was very little competition with other MFIs operating in the area. Ravi believed that the reason why Jaipur had been an untouched market in India was due to the topography and the lack of concentration of people. Today, however, PSC has experienced what seemed to be intense, if not unhealthy competition. For example, SKS, India's largest microfinance institution, set up their Jaipur office across the street from PSC's operations. Furthermore, there are a number of organizations such as Spandana, SML and Basix that are operating in the area around PSC's operations which has put stress on their operations. As Mr. Gupta stated, "*We are a small fish surrounded by sharks.*" He believed that there should be a forum of MFIs where they are able to see which MFI has lent to which client. "*We are not coming together, we are not working together. This competition can be very healthy if we start working together.*" He believed that competition within microfinance could be healthy if all the institutions were able to come to consensus and work together. Most of the MFIs operating in the area focused on outreach and volume with a for-profit mindset that tended to involve "*quantity over quality.*" He explained that if a separate MFI supplied loans to one of PSC's clients, the capacity of the client to pay back the loans would diminish. Ravi Gupta had seen many clients who took loans in order to pay back other loans to PSC which was a clear indicator of overlapping activities. He also believed that some companies such as SKS lent money irresponsibly without proper due diligence.

Ravi explained that PSC stressed quality over quantity which was one of the reasons why they have not grown as quickly, preferring to lend to a smaller number of people. PSC wanted the women of the house to become independent and empowered. Ravi stressed that follow-up of a particular client to see how the money was being used was important for PSC and was in their line with their philosophy of creating quality groups where each client was taught how to handle financial transactions and to assist other individuals within their group. "*Although I'm not saying we are doing huge quality work. I am happy with our own product. This is what I perceive quality means and that is what we want to do.*"

Ravi believed that one of PSC's advantages was that the field officers considered their clients' problems as their own. Furthermore, when comparing PSC to other organizations such as SKS, he believed that since SKS had commercial investors, "*[It] makes their staff more arrogant and pushy which is sometimes considered negative by the client.*" That was something that PSC tried not to do.

Satender told the researchers that there existed a number of organizations that worked in and around Jaipur that were in direct competition with PSC. He had seen overlapping cases but had not considered them detrimental to PSC's clients' capacity to pay back their loans. He said that clients were then able to invest more into their enterprises. "*It is beneficial because the women can invest much more in their*

business....see like, if they get a basic loan of 10,650 and SKS gives 10,000 then a woman can invest 20,000 and can purchase a good amount of raw materials or products for sale.”

However, there was a double message in Satender’s position which was inherent when we asked if the loan amount was sufficient for the women. He believed that it was and if it were increased they would most likely be unable to repay the loans because of the high level of weekly installments that were demanded by lenders. *“What my experience is that when we go to the higher size....the repayment issues or the repayment system is little bit problematic because they are not able to earn so much compared to the installment....because in the case 23,400 they have to pay 520 rupees per week....so you can say, around 20,000 there in a month, it is quite difficult to deposit this much amount in a month.”*

View on Services and Sustainability: Throughout the interview Ravi stressed the importance of sustainability. He explained that, *“Business and charitable work cannot be mixed,”* hence the reason why PSC split as a separate entity from Project Concern International. Currently PSC is not offering any business development services but they are planning on launching a number of products because Ravi considered that to be an important part of his business.

When asked if he had seen any changes in the people that were being serviced by the MFI he stated that like other MFIs, of course there have been some success stories. Interestingly enough, that question provided a measure of how *he* viewed success when he answered that, *“I want to say that we have more successful stories than unsuccessful stories. I think that my clients are satisfied with this service that we have provided and if there is 50% success, I’m happy. Because I cannot believe that out of ten, more than 5 women can use that money properly and come out of poverty and start earning money for their family.”*

Satender on the other hand had an interesting view on the longevity of the loan when asked whether the loans had made any differences in the women’s well-being: *“It is increasing their income level, but for a shorter time...after that they need re-financing...that is why we try to encourage quick re-payment for re-financing, because if we don’t give them a loan they will take a loan from a money lender and our objective fails.”* He added that, *“The goal is first to increase the livelihood of villagers....increase their empowerment in the society....it is the main objective as well as social education which we are not working with right now.”*

Satender believed that it was important for PSC to offer services other than credit. He explained that he had advocated for those initiatives but at the moment they were unable to offer them due to budget constraints. He explained that by offering services in areas such as education and sanitation, the women would be able to trust PSC to a greater degree, the services being beneficial for both the women and PSC in the long run. He stated, *“They will have more trust with PSC because PSC works from their personal issues then...the women have problems with sanitationit is difficult for women....so later on if we work with this development they will see that this company is working for us and it will be good.”* To do this he believes that they will need to raise external capital but cannot afford to raise their interest rates due to competition.

Challenges: Recently PSC had a case of fraud that significantly impacted on their operations and left one of their branches on the brink of collapse. One branch manager had stolen a sum of money and fled. Because of that, Ravi was forced to appoint one of the branch managers to cover both of the branches. *“I’m sure each MFI has had this problem. We are learning lessons and I think these things make us healthier and stronger in the long run.”* Further aggravating the problem, Ravi said that the microfinance industry suffered from a human resource deficit of poorly trained staff. He also believed that there existed a closed community of individuals within the industry that unfortunately did not want to share their knowledge for startup enterprises such as PSC. Adding to this deficit of trained personnel, EDA

rural systems, a consulting firm helping MFI expand and develop their operations, charged excessive sums to train employs, thereby hindering PSC in expanding its workforce.

Ravi Gupta believed that the economic crisis and the lack of current monsoon rain posed further challenges. Internally, PSC also had problems with the Ministry of Home Affairs in raising foreign funds as well as in negotiating with government banks in handling a large number of people's accounts. Because of the unique relationship between PSC and PCI, investors seemed hesitant to get involved when they noted that the same finance department served both of them. Additionally, because of the economic downturn, a large number of borrowers who had used funds to create export businesses saw their investments falter with the end result of loan defaults. Ravi Gupta explained that their current bank had wanted to limit the number of check transactions that PSC used instead of cash. He explained that, *"There is not problem to disburse cash, but cash bearing is risky and it is not too accountable....if the field officer would cheat them there is no accountability because the women are not literate and are not educated."*

View on HR: Although there was an even split between the number of male and female field officers, Ravi believed that PSC's customers favored women staff mainly because they were able to better relate and communicate with them. He believed PSC customers' first priority when selecting a lender was the relationship they had with the field agents. Satender also explained that when hiring new employees they preferred those with graduate degrees. Formerly, the training process was fifteen days and then was increased to two months where older employees taught newer ones how to operate in the field. Satender explained that they faced a shortage of educated individuals who were aware of microfinance.

According to Mr. Gupta, the focus of branch managers and loan officers was to see women emerge from poverty and to help them do so by utilizing loans. *"They are part of the mission, part of the vision."* Ravi explained that in order to ensure that the employees will promulgate the policies of PSC, the organization is going to have a collective meeting where all the members will come together to see what the organization has done and what it plans on doing. Satender, the branch manager, believed that women tended to be the most effective field workers because they were able to understand their needs more easily because the recipients were women. Furthermore, in his opinion he believed that servicing men and not women could create problems because the men were more likely to default. He said that his dealings with women's husbands showed that men were less reliable. Furthermore, men usually do not have time to meet because most migrate to the cities to work.

View on Poverty: Ravi Gupta as well as PSC had a special way of viewing clients through the scope of whether they were considered poor in their community. *"We don't follow any poverty line. We follow a poverty assessment tool that gives us a dissection of society. In that particular village who is poor, the poorest and not poor? That's three categories. Now if there are poorest, they may not be the poorest of the poor, they may be above the national poverty line, but for that particular community they are the poorest. For us it makes more sense to do it that way because no matter how rich I am, if I am living in a society where I am considered as the poorest of the poor, or not being involved in community affairs because of my caste or family status, I see those clients important to help."* Mr. Gupta had a benchmark of what he considered to be microfinance which were loans made under 200,000 rupees although PSC was only legally able to give cash loans under 20,000 rupees.

PSC targets women from a broad range of socio-economic strata although they try to target the poorer clients. Mr. Gupta explained that the wealthier clients that PSC services are often old clients that have reached a higher economic tier but do not want to let go of the services the organization offers. *“The people say that if we leave you now, we can become poorer again. We have many poor clients who after three levels of loan cycle are still poor because of many reasons.”* He attributes these reasons mainly to accidents and health problems which require high medical costs.

When PSC began operating in the villages outside of Jaipur they met a great deal of resistance from the women. Satender explained that many of the women did not trust Satender and PSC when they were conducting their surveys of the area. Every village PSC started operating in they met some sort of barrier from the women and their husbands for the first three months. Thus in order to gain the women’s trust, they had to go to individuals who had a great deal of respect from the local villagers such as the local school teachers. After convincing them that they were there to help to combat poverty, they would then ask the village leader to convince the women and thus overcome the trust issue.

Ravi understands that often women are unable to save their money and thus a weekly repayment scheme was developed. He believes that it is easier for a client to pay a small sum of money each week than to pay a larger sum once a month. As he put it simply: *“If you go to a client and ask to pay 1200 rupees and she doesn’t repay that, it’s a lot of money. If she does not repay 300 rupees in that week, she maybe will be able to repay back that amount.”*

Initially they had groups of 20-25 people however, this created confusion when some members of the group wanted a loan because they had repaid earlier than the other members. Because of this, some members would not agree to allow new loans to be given to those that required them.

When asked about the benefits of JLGs compared to other models such as SHGs, Satender explained that there are both benefits and disadvantages of those models. He believes that SHGs are better equipped to address social issues and livelihood development compared to JLGs. However, since SHGs give often subsidized credit, JLGs are better in influencing the economy of women through their reliability of providing consistent finance.

Field Officers’ Perspective

View on Work at PSC: The two employees at PSC had quite substantial differences in their views on their roles within the organization and how they felt about the organization. One field worker felt that she was very satisfied with her work, but admitted that it entailed a lot of effort on her part. She iterated that she had to fill in numerous forms and constantly had to travel between and from villages which was quite tasking. When asked about security she replied *“I can’t be afraid...the kind of work I have, when I leave in the morning, I never know if I’ll come home in the evening...it’s pretty straight forward, I mean, I’m dealing with a lot of cash and if someone would see this and follow me they could steal it and hurt me but I’m not afraid...you can’t be afraid, I can put on a fight if there would be a need, and I usually am able to get the installments.”* She believes that working with someone else at her side would enable her to feel more secure and expedite the workload. Furthermore, she has an amicable relationship with her superior who she finds to be very supportive.

The second field worker on the other hand stated that the risk factor of working for PSC was immense and the company had not properly compensated them for this. There had been a number of instances where angry family members had gotten into fights with the second field officer. Furthermore, the field officer had gotten into three accidents where he had not received compensation for this. Much of the stress attributed to his work had to do with the fact that he was forced to travel long distances with a large amount of cash which aggravated his security concerns. Another worker at PSC also had a number of concerns which were inline with the second field officers views. Both of the workers had gone to the management and asked for higher compensation for the amount of risk they were taking but were denied due to the financial incapability of PSC to pay for such expenses. Additionally, the second field officer who had completed his masters felt that his talents were not being utilized to their full extent. This is a good reason why he saw the accountant who had more responsibilities than he did as a person he looked up to. When asked if they were searching for work elsewhere they both iterated that they were and if they found such a job, they would stop working at PSC unless they received more benefits and higher pay.

Customers: Both of the field officers had seen significant changes in the lives of the women they served. Both agreed that before PSC had provided loans to the women they had no or marginal income, but now they are able to accommodate for themselves without the help of their husbands. *“Previously they were dependent on the daily labor wages of their husbands, and they would cheat and wouldn’t bring home flour for bread in time and would drink....if they didn’t bring the groceries they could not make food...but now they can handle things on their own.”* Currently both of the field officers work with around 400 clients per week which the first field officer explained inherently provided situations where problems arose, such as refusal to repay loans. She explained that if there was a problem she would collect the money the coming week, or if there was a bigger problem then she would ask the branch manager to come with her and help her solve the problem. The second field officer iterated the same issue and added that only around 25% of the women were unserious about their commitment to PSC and only 5% of the women ever posed problems on repayment. If the client refused to pay, the best method to deal with such a situation was to converse with the client and reminds them why PSC is lending to them. If she still refused however, this posed a problem because the attitude spreads to other members of the group. The men also have posed problems which could be seen in the aforementioned conflicts. The second field officer explained that the situation had gotten significantly better since the men had become signatories on the loans.

The first field officer admitted that drinking was a big problem among the village men, but said that it rarely affects the women’s repayment. Later we observed the field officer collecting cash from a lady on the way to her house, and we asked her if this was a late installment. She explained that the woman paid her whenever she has the money, usually earlier than the end of the week due her husband stealing her money and buying alcohol.

The first field officer believed that the most important aspect of working with the women was to create a good rapport with them. When dealing with new clients she has to explain the mission and goals of PSC because they are unfamiliar with the microfinance model. However in handling clients from districts that she was unaware with she treated every individual the same regardless of whether she knew them or not. However, she admitted that there was always a greater trust from the women if you came from the same village.

In terms of how groups are formed, the second field officer believes that the smaller the group, the better chance there is for repayment because of trust between the women. Since there has been a policy change at PSC where groups have become smaller he has seen an improvement.

People's Perspective

Logistics of Lending: All the women borrowed money for income generating activities. Both groups were in their first loan cycle and had weekly installments of 250 rupees due to them receiving an equal loan amount. It is apparent that trust is an important factor for the women with regards to each other and their relationship with the field worker. Trust between the women was important due to only a few of them being literate. However, they did explain that if a company came and offered them lower interest rates, they would first go to PSC and ask them to lower theirs, and if they would not they would go to the other company. They explained that there still existed informal money lenders that charged 2% monthly interest, however if they required short term lending they would lend from the group who they believed would generally not charge interest.

Although the field worker that we visited the village with came from the same village as the women, the customers iterated that they would still trust her even if she did not come from the same place. When asked whether their husbands were supportive of their activities only one woman replied that this was so while the others were silent.

The women admitted that there were other companies operating in the area, however, they explained that they did not lend from them. Questioned further one woman explained that *"It's better than loaning at many places, that makes the installments very difficult' and because although sometimes the interest rates are the same, paying back two loans is difficult"*

Although the groups were relatively new, the women seemed not to be that empowered where a number of them had talked about how they had married away their girls and did not know about savings, but one had to keep in mind. However, they all seemed to have extreme entrepreneurial tendencies, as most women have started their own businesses with a full supply of raw materials, logistics and sales. The trades varied quite substantially where one woman was a blacksmith, one a bangle maker and another woman made clay pots with the help of a loan to buy a kiln. Before PSC arrived the women worked as day laborers earning only 90 rupees per day and had never saved. Now that PSC is here they all agreed that they are able to save a little bit. However, this was primarily for women pay the weekly installments on their loans. The main change that they have seen in their lives is that they are able to provide sustenance for themselves and are able to earn an extra income. Furthermore, PSC has provided them with a basic financial literacy course and they are now able to sign their name. Nevertheless, they believed that if the loan amounts were higher, they would be able to expand their businesses and buy supplies in larger quantities which would reduce costs.

Other Observations and Contextual Setting

The village that we visited was clearly impoverished yet not more so than outlying villages. The infrastructure was rudimentary where paved roads were non-existent. Small time manufacturing and services were the main methods of subsistence with shops varying from selling bangles to food supplies. There seemed to be a lack of schools or education was not of priority due to the sight of numerous

children. All of the women that we met were traditionally clad where all covered their head with scarves aside from the field officer. It was apparent when we conversed with them that there were very few who were vocal when talked to.

Company Specific Initial Analysis

It is extremely important for there to exist a formal step ladder to allow employees to move up in the organization more so when employees are highly educated. There are obvious advantages of having field workers from the same village where they operate. Local cultural nuances are more easily understood which could create more rapport between the villagers and the field officers. There are pros and cons of having a short time span between meetings. The problem with ineffective time usage can be seen again where PSC requires that women have to take time out of their day once a week to go to group meetings. However, Ravi Gupta believes this creates an ease on their finances where they do not have to pay back such large amounts each month. In terms of trust PSC goes through local leaders in order to convince women they are there to help. This process is lengthy and often takes an immense amount of work.

Satender admitted that loans only improve the income of individuals for a short amount of time. He further stressed that the loans have to be quick and efficient in order for them to avoid taking loans from informal credit markets which often are much easier to access, albeit with a higher cost than PSC's. It was surprising to hear Satender explain that overlapping may be beneficial for the women at SKS due to them being able to buy inputs and lower prices. This, in essence, is a confession that loan sizes are insufficient, although he did explain that they lent the amount they believed to be at their capacity.

It is important for a MFI to create an affective payment system. Since PSC has had trouble issuing cheques because of their banks reluctance to handle such a large amount of transactions, PSC should consider other methods of payment such as cash. They have efficiently circumvented problems with theft; however, they have lost effectiveness in terms of time. Individuals are forced to come to the office to collect the cheques and then deposit them at the bank which has created a situation where they take time out of their work hours.

PSC strives towards offering other BDS services however they have not started to at the moment. It is apparent that at all levels of the organization they understand that they need to offer other developmental services than credit.

6.3 Non-Banking Financial Companies

6.3.1 Bharatiya Samruddhi Finance Ltd (BSFL)

The information on the background of Basix and the services provided by them were compiled using information from their website and through interviews primarily with Anoop Kaul, the National Head of Financial Inclusion. Further empirical findings were collected through interviews from two field executives, one branch manager and a number of lenders.



Interviewing a BSFL client amidst a crowd of curious onlookers

Background

The Holding Company, called Bhartiya Samruddhi Investments and Consulting Services (BASICS Ltd.) began operating in 1996 and has set up two fund based companies, Bhartiya Samruddhi Finance Ltd, a

micro-finance NBFC in 1997 and Krishna Bhima Samruddhi Local Area Bank Ltd in 2001¹⁴¹. The organization included in this result section in Bhartiya Samruddhi Finance Ltd, from here onwards called BSFL, the micro-finance NBFC which provides loans to rural poor people. BSFL is “registered with the Reserve Bank of India (RBI) and incorporated under the Companies Act, 1956, through which credit and technical assistance are delivered. This is the flagship company of the BASIX group¹⁴²”. For details on the structure of the corporation and the organizations discussed in this paper, please refer to appendix E 2. On their website it is stated that, “BASIX is a livelihood promotion institution established in 1996, working with over a million and a half customers, over 90% being rural poor households and about 10% urban slum dwellers. BASIX works in 15 states; Andhra Pradesh, Karnataka, Orissa, Jharkhand, Maharashtra, Madhya Pradesh, Tamilnadu, Rajasthan, Bihar, Chattisgarh, West Bengal, Delhi, Uttarakhand, Sikkim and Assam and over 10,000 villages. It has a staff of over 3500, of which 80 percent are based in small towns and villages. BASIX mission is to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner¹⁴³”.

Due to the significant differences in the legal forms and hence the liberty to deal with finances, (KBS LAB) Krishna Bhima Samruddhi Local Area Bank will be discussed as a separate organization. However, the other organizations under the Holding Company are discussed under this section due to their pivotal role in the transformation of Basix operations from microfinance to livelihood promotion. These organizations include the grant based Indian Grameen Services and the fee-based Livelihood School. This change in focus from only providing credit to providing livelihood promotion occurred in 2001.

Services

The livelihood Triad: Basix has adopted the livelihood triad, shown in the diagram below, providing financial inclusion services, institutional development services and agriculture/business development services.



Microfinance: Depending on the market they are serving, BSFL organizes people into SHGs or JLGs. In certain cases individual loans are also dispersed. Anoop Kaul explains that the group models allow for a

¹⁴¹ Official website of Basix India, URL http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=37&Itemid=51 [cited 20090908]

¹⁴² Official website of Basix India, URL http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=40&Itemid=54 [cited 20090908]

¹⁴³ Official website of Basix India, URL <http://www.basixindia.com/>, [cited 20090908]

¹⁴⁴ Image taken from official website of Basix India, URL http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=228&Itemid=231 [cited 20090908]

greater outreach and also serve as social collateral. In urban spaces, he says, forming SHGs is difficult (due to migration and social alienation), so they instead use JLGs.

Mr. Kaul; clarifies that Basix is more than just a microfinance institution: *“We have created an organization like this where we have the flagship company known as Bhartiya which means India and Samruddhi which means prosperity Investments and Consulting Services Limited. They are the holding company registered with the reserve bank of India. And this invests equity into a non-banking finance company”*. The NBFC (non-banking finance company) is the organization which can access loans from larger banks and distributes these loans to the poor at a higher interest rate. Basix also provides insurance for lives and livelihood, money transfer services, and financial orchestration. In addition, they work with risk-mitigation by aiding farmers to access better fertilizers and teach them the options of futures markets.

Market Linkages and Business Development: Mr. Kaul provides an example of the kinds of market linkages Basix is providing: *“So we had given them microcredit but then we.... formed a group, not a company but just a group. And then we made them talk with Frito Lay who makes potato chips and said please why don’t you come and pick up your potatoes here at a slightly higher price. So we brought them together and aggregated the produce and negotiated a slightly higher price. This is what is called market linkages. So I am giving only credit but if I connect them to the market and get a better price I’m taking care of them in a better way helping them get more out of their money. Now you take the cotton farmers in Andhra Pradesh. Therewe helped them get better set of fertilizers and connected them to a spinning mill and asked them to pick up the cotton a 5% higher price. And when the mill said no....we want it to be ginned. We funded a ginning plant and gave it to them so the cotton could be ginned. And now these are a host of services that we are providing to the farmers, right from input to the output stage. Had we just given them finance, it wouldn’t have made a difference.”*

Mr. Anurag, District Manager of Basix, gives another example, specific to their urban branch in Dilshad Garden, in the eastern end of Delhi. He says that they have linked up their marginal traders with a company called ITC. This company sells consumer products relatively cheaply: *“so they created a segment for the rural market....so whatever offers and schemes ITC might have...the benefits of those will go directly to the traders...previously it was the distributor or retailer who got that benefit...but now it is reaching the marginal traders”*.

Institutional Development: On an institutional development level, BSFL is involved with various activities such as setting up SHG groups, teaching them accounting skills, enhancing the skills of individual entrepreneurs through specified training, and also engaging in policy and advocating changes and reforms within the entire microfinance sector in India¹⁴⁵.

Management Perspective: The management perspective is based on the interview with Mr Kaul. We were unable to meet with chairperson and founder of the organization, but we the interviews imply how his determination, beliefs, and values lay at the core of the organizational culture.

Importance of Leadership: Many times during the interviews with various people associated with Basix, the same name was mentioned over and over again. The name was that of Basix’s chairperson, Mr. Vijay Mahajan. Mr. Vijay’s dedication to the organization and to development work can be seen not only

¹⁴⁵ Official website of Basix India, *our services*, URL http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=47&Itemid=61 [cited 20090908]

through the respect his employees and co-workers have for him, but also through the way Basix has grown from the time of its inception in 1996. Mr. Anoop says, *“Maybe he drew inspiration from Mohammed Yunus. He chose a very difficult life. He used to go to the villages and sleep with them...So he’s actually lived and been a poor person himself to understand what their needs are. So and then he’s of course on the board of CGAP, Consultant Group for Action against Poverty, this is the highest global body...An offshoot of the World Bank. He kept his ideas open and he grabbed whatever opportunity came his way. He works night and day whether he sleeps in a car or plane or waiting at a restaurant; he’s constantly on the move”*. Mr. Anoop describes Mr. Vijay as, *“rated as one of the 50 most important Indians in the country”, “having a genuine interest in helping the poor”, and a “man of ideas”*.

Mr. Anurag expresses that he doesn’t, *“understand how he [Mr. Vijay] can bring out something sensible in every little detail”, and that “he is really an inspiration....when I read about his background [high degrees from prestigious universities], I felt that when people like him are coming into the development sector, we can really achieve something”*.

The Needs Hierarchy: Basix’s complex organizational structure is due to the founder’s vision. Mr. Anoop notes that: *“According to Mr Vijay Mahajan the first need of the poor is deposits. They don’t have a place to keep their savings. They keep it under the mattress, in a bottle or give it to a friend. That leads to dis-savings. So they need a place where they can save. They would like to keep a part of it for future crisis situations. Second need of theirs is that since they are constantly moving around to one activity to another, they want to send money to home, they need money transfer facilities. So after the savings, the second most important financial product is money transfer. The third major financial product is insurance. Insurance means health life, livestock, rainfall or whatever. They are very vulnerable. They are living at the threshold of their income. And their fourth need would then be microcredit. So we are looking at the hierarchy of needs of the poor, so the microcredit comes a little later”*.

Mr. Vijay so strongly believed at the top of the poor people’s needs hierarchy there was a need for savings. He tried to get permission to organize deposits from the central bank. When the bank disapproved, he worked hard on securing a bank license. There have been several fraudulent banks operating in the past, according to Mr Anoop, and today receiving a bank license is one of the most difficult permits to obtain in India. He did, however, gain permission to open a local area bank. This type of bank is confined geographically to areas with no operating bank branches. Mr. Anoop explains: *“We are an NBFC that owns a bank (KBS) and consulting services”* among other things.

View on HR: Mr. Anoop notes that the strength of their company is, *“the field workers ’connectivity to the poor. The farmers have no time to go to the bank. They go out in the field at five in the morning and come home late at night. So there is a need to be available to them. So that is done through a concept known as Livelihood Service Advisors (LSAs) LSAs are all given ten to fifteen villages and they go and mobilize people there. They form SHGs and JLGs. This is our strength. We are about 4500 people and almost 4000 are in the field”*.

When asked what qualities they look for in people they hire, Mr. Anoop says that they normally like to hire MBAs to work at a management level. However, they look for people from various fields in order to provide technical services. The employees therefore include specialists like agriculturalists, veterinarians

and IT engineers. The organizational mission is dispersed within the organization through training but also through posters that are set up in all offices stating the mission. The employees get Basix bags, t-shirts and caps to wear at work. Regardless of employment level an employee's positive attitude is one of the most important attributes and prerequisite for hiring.

View on Sustainability: The trade-off with equity," Mr. Anoop notes, "is that when investors ask for a 30% or more return, *they are asking us to change the character of our organization*". He carries on saying, "*But we don't want to play that game. We want to give loans to the poor at the rate they can afford. So we have decided call this concept livelihood promotion. We will not just be a microcredit organization but we will be a livelihood promoting agency because our whole basket of services goes beyond finance*".

According to Mr. Anoop Basix engaged an outside agency to conduct research for them and they concluded that credit was recognized as necessary but, "*not a sufficient condition for livelihood promotion*". Realizing that credit on its own is insufficient he compares their approach to that of Muhammad Yunus's: "*He feels that credit is the fundamental right of every individual. And access to financial services means not only credit but also deposits and so on and so forth*". Basix plans on financing its operations solely through mainstream equity (i.e. IPO) after 2010 where as currently they are being provided funding mainly through loans from banks such ICICI and equity investment from companies such as HSBC.

On their website BASIX mentions that, the for-profit and not-for-profit entities of the Holding Group work in, "*synergy and contribute to each other's growth and prosperity*". The idea behind sustainability is interesting, a combination of grants and profit-earning. The collaboration between the separate organizations that together fall under then BASIX Holding group creates such a platform for sustainability. According to their official website, the credit business allows customer acquisition, whereas the insurances mitigate both customer and credit risks. The business development services strengthen trust and leads to customer retention through the enhancement of their incomes. The consulting organization as well as the Livelihood School allows BASIX to earn revenues that can be allocated to the promotion of livelihood services¹⁴⁶.

Funding: There are several dilemmas related with fundraising, according to Mr. Anoop. Basix has received equity from organizations that previously provided grants. A large part of the funding also comes from banks in the form of soft loans. There are reportedly huge losses in some areas and the chairman has himself financed such losses. Mr Anoop notes: "*He said 'it doesn't matter. You can incur another three lakhs per month if you have to. The losses are justified because we are working for a better tomorrow,* Mr. Anoop reminds us that BSFL has a social mission, but there needs to be access to mainstream finance. Basix cannot be a grant based organization if it wants to grow, according to Mr. Anoop: "*We were a 100% grants driven and now we only have 2% grants. Today all grants go to Indian Grameen Services and all other organizations are run on internal revenues*".

¹⁴⁶ Official website of Basix India, *Basix Group*, URL, http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=37&Itemid=51 [cited 20090908]

Mr. Anoop explains that to access mainstream funding they must be willing to dilute some of the control in the company: “my chairman is willing to give up his predominance in the organization. Now all of a sudden our operations are so big, we have to raise more and more loans. To raise more loans we have to offer more equity. The individuals can no longer provide the equity. So we have to surrender the seats on the board, and our director is open to this”.

Livelihood Promotion: BASICS Ltd has been providing fee-based business consulting from the outset, offering services in microfinance and livelihood promotion, training, institutional development and information technology applications for microfinance and livelihoods. There are a number of organizations under the BASICS Holding Group that work together although they are financially independent. These organizations together create the platform for livelihood promotion that Basix manages. The NBFC mentioned above, caters to the credit needs of the poor. Indian Grameen Services and the Livelihood School focus more on the promotion of livelihoods. Mr. Anoop notes:

”Indian Grameen Services, a Section 25 not for profit company forms the research and development arm of BASIX. Besides carrying out research and development in the area of livelihood promotion, it also designs and develops financial products for extending credit, evolving distribution channels for delivery of its services and developing necessary systems for service delivery such as accounting and MIS. The Livelihood School is an independent society promoted for knowledge building and training of livelihood professionals in NGOs, government agencies, banks and MFIs. It also provides training to BASIX staff. It is involved in building the knowledge base required for supporting livelihoods and disseminating the knowledge so generated for building the implementation capabilities of various organizations playing a critical role in supporting livelihoods¹⁴⁷”

Relationship with Government: According to Mr. Anoop, BSFLs relationship with the government is one of collaboration. He talks about working with the State government in Rajasthan to open up 4.5 million accounts in 45 days. Also, Mr. Vijay is an active member of many organizations lobbying for reforms in the microfinance sector in India.

Challenges: Mr. Anoop acknowledges that access to equity is one of their major constraints, but states that SRIs (social responsible investments) are becoming popular around the world. The SRIs, according to Mr. Anoop, do not demand such high returns but want the money to be invested where it serves a social mission. He feels that SRIs are a safe way to go. He also admits that technology is a challenge, especially finding cost-effective alternatives. The areas of operation are often of a rural type, and hence any technology used must work in such geographies where electricity is mostly lacking. He also mentions that it is a challenge to find a committed workforce.

Competition: According to Anoop BSFL has no real competition, he explains that only about 20% of the Indian market has been tapped and states that, “there is a huge need for collaboration”. However, in the urban areas where BSFL is operating, Anurag says that there are many MFIs. He lists about fifteen that he says are working in the same area, but he stresses that he believes the competition to be healthy. Anurag feels that BSFL has an advantage, working on a monthly repayment model whereas the others use a weekly model. He also states that they do not restrict their customers in any way, “if we have given them a loan and another MFI feels that their repayment capacity is good then they could issue them a loan”.

¹⁴⁷ Official website of Basix India, URL http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=37&Itemid=51 [cited 20090908]

Outreach: When asked about if they serve the poorest of the poor, Anoop's estimation is that hardly 5% of their customers fall into this category. Most of the customers are already involved in some kind of business activity, whether it may be cycling a cycle-rickshaw or pushing a vegetable cart.

Field Officers' Perspective

One field executive and two field officers were interviewed. The field executive has been working with Basix for a year and has an MBA in marketing and finance. When asked what made him start working at Basix, he notes: *"You could say that I fell into it"*. The field executives work with loan appraisals, checking, approving and finalizing loan proposals that have been put forward by the field officers. The two field officers work in the geographical areas where they were brought up.

Thoughts about Basix: The field executive states, *"It's a good company, we are working for the poorer section of the society, the rural and urban poor."* When asked about how they win people's trust and how they promote their services, the field executive points out that, *"there is a difference between other MFIs and Basix, Basix is a brand name in India...many other people interact with our people, they say Basix has many branches all over India...it has a consulting division ...so it's a good company in comparison to other companies"*.

Group Formation and Building of Trust: The field executive explains the methodology regarding group formation and information dissemination and says: *"we get them together and explain about what a group guarantee is...if somebody in the group fails to pay then the others have to pay....as a group guarantee...then we tell them what Basix is all about, when we started the company....that the company is a private and not a public company....after that we tell them about the interest rate...the facilities we are providing with the loan....like insurance....that's all....after that we evaluate the activity of that person, what he is doing, what is their annual income, what is their expenditure"*. He acknowledges that people still use informal money lenders but says that they are getting educated about Basix and other microfinance institutions and prefer to use their services. After loans are disbursed, the field executive explains that they go back and do checks to see if the loans are being used for the stated purposes.

One of the field officers notes: *"it's all about rapport building."* The other field officer observes: *"The first time we tell them a little less about the loan, we have to come more than once...because they can suspect that we might be trying to con them. So you have to show yourself a few times and give them a chance to feel comfortable...If I spoke to a lady today she may say that she wants to discuss it with her husband and that she will let us know later"*.

Changes in Standard of Living: The field executive remarks that living conditions for the clients are getting better but says that the changes are not very significant, *"because it is micro loans and fifteen thousand today, it's not that much.:"* He says that additional services would probably be beneficial, *"like if a person is a tailor, he needs machines....we could assist him to repair the machines or provide new tailoring designs."*

One of the field officers notes: *"There has been a change in peoples' life....businesses where money has been invested, have grown...for example, if you would see the standard in this colony before we intervened, the standard was very low"*. The field executive is more critical, when asked if he believes the

local businesses have grow because of the loans provided, he admits: “I don’t see that much *impact because the initial amount that we give customers is very small....we start with 10 thousand...*” The field executive continues, “*Just giving a loan is not sufficient for them....when they get the loan they just know that they have money to spend....but they do not always understand where their business in lacking, and where to invest the money....Actually....one thought that we have adopted newly is that of business development services to fill this gap.*”

Differences between Urban and Rural Operations: One field executive who has experience of working both in a rural as well as an urban setting explains the differences between the two: “*The basic difference is that of a cultural issue....actually, in the urban slums...the migration is huge....one day we could have a customers and the next day they could move....so to search that person becomes very difficult....secondly, in the rural areas people have very clear mentalities....like if they know that they have loaned money from someone they know that they have to repay it by any means...but in the urban areas, there is a larger fraudulent mentality....just to get money, and they’re sometimes not so keen to repay.*” He notes that urban dwellers often look for work that they can conduct at home and, “*they need money basically to give a deposit to the people they are bringing work from....they have to make a deposit according to get work and the ratio of work depends on the amount of deposits they can give.*”

He says that in the villages, “*identifying people is very easy, it is very easy to get information about people...people know each other very well....but in the urban areas people living in the same campus might not even know each other....so in the urban areas, the counter party check becomes very difficult*”.

Peoples’ Perspective

The shop keeper’s mother, Zareena, has taken out a loan for her son’s shop, and he has used the money to buy more shop inventories. The shop keeper states that the stock comes from Som-market. When asked how much he makes in a month he says he is unsure but says that he makes between 100 and 200 rupees per day. He reportedly has a phone service and also sells dvds, cds and mobiles. He has a computer which is used for downloading songs etc. His fifteen years old son and helps him out during the summer break. Otherwise he is a ninth grade student.

Zareena informs us that she found out about Basix and the opportunity to obtain loans through the field officer. He is from the area and she has known him for quite a while.

Loan size: Zareena reportedly took out a loan of fifteen thousand rupees for her son. She is thinking about applying for another loan. She feels that micro loans have helped peoples’ work and that there are many people who want to join a joint liability group. However, there are many companies coming to their area, according to Zareena, and comparing what they offer is important. It depends on people’s preferences, according to Zareena, what company they choose. Monthly repayments reportedly work better than weekly installments. Monthly installments usually amount to a lower interest rate per annum.

Zareena feels that the loan amounts that Basix offers are too low: “*I said to Parveen [one of the field agent] that if you give me a loan for 50, then I’ll take a loan from you....because right now I have nothing.....I have married my children off and I have enough for my daily bread and butter for myself....but a larger loan, I could actually do something with. I could start something up, you know*”.

She says that she would use the money in her business [teaching girls how to stitch]. She could rent a bigger place and expand her business.

Information Asymmetry: In addition, we informally interviewed a rickshaw driver and a man who repairs carts [used widely to sell vegetables and fruit]. These men said that they never have heard of any company making micro-loans although they live in the same area where Basix, and supposedly many other microfinance companies are operating. When asked if they would be interested to apply for a loan, they responded that they would be extremely interested. The rickshaw driver would be interested to loan about 100,000 rupees in order to be able to buy his own vehicle. The cart-repairer would be interested to loan around 50,000 rupees to expand his inventory of spare-parts.

Observations and Contextual Setting : When we had first arrived at the field office in the outskirts of Delhi and were told that we would visit the ‘slums’ that day, we imagined decrepit encampments made of plastic tarp and tin. However, this could not have been further from the truth. The ‘slum’ located in a Muslim area consisted of a bustling array of service oriented businesses and tree-lined streets. The Basix’ field office that we visited was located in more of a ‘slum’ than this area. However, it was apparent that the loan taker lived under strenuous conditions. The apartment was extremely small, no more than seven square meters, with a small kitchen and sleeping arrangements.

Company Specific Initial Analysis: It became apparent to us when visiting the field that some lenders were approved for several loans from different companies. For example, Zareena talked interchangeably about the “lady upstairs” and “our loan. Although we never met the woman upstairs, it was pretty clear that the same family benefitted from two loans from different companies. Zareena considered the loans “family loans.” They reportedly chose a different loan company for the second loan because they felt they could save some money on the interest rate. Since we were never able to interview the second lender “the lady upstairs” we never discovered the amount or purpose of this loan. The Basix branch manager, Mr. Anoop, consider overlapping loans to be acceptable as long as the people are able to repay. Furthermore, Mr. Anoop explained that only 20% of the market has been penetrated so competition is reportedly not a problem.

It was clear throughout the interview that Basix focuses on extra services rather than purely on credit. . It was apparent that what they categorize as “the hierarchy of needs of people” conflicts with the legislative environment that governs MFIs in India. Basix values savings before money transfers, and money transfers before insurance. Microcredit comes third but is essentially the only service that they can easily provide. They consider access to *financial services* to be a fundamental right of human beings rather than just access to credit. Basix has brought microfinance to the next level and understood that normal non-disenfranchised people not only require credit but other services

Basix emphasizes the need to employ different models for different areas. Individual lending is preferential for urban environments where as the JLG and SHG models function best in rural areas. They have discovered that the urban mentality is different than the rural attitudes. According to Basix’s employees, individuals in urban areas are less trustworthy than people in the rural areas. Furthermore, identifying individuals is much harder to do in urban areas and thus individual credit is preferred. Basix has also seen the benefit of utilizing different corporate structures to carry out specific tasks. For example, the NBFC deals mainly with credit and institutional development. Their non profit wing concentrates on action research and is funded by grants instead of self-sustainable services.

The major challenges that Basix face are funding, technology and finding a proper HR workforce. To circumvent the problem of finding vital staff to work in the microfinance sector, Basix has started a livelihood school. The school trains their future staff of Basix not only in business development but also in how to interact with clients. It is quite apparent that for most fieldworkers they initially see their work at Basix as “just another job.” After having worked at Basix for a while, the field officers generally start to appreciate their interaction with clients realizing that it is more than just a job. They begin to understand that customer trust building with their clients is of utmost importance. They note that they cannot push people to take out loans or they will become suspicious. Basix started with grants and ‘soft loans’ from donors. They moved towards regular loans and private equity placements. They have omitted equity investment firms looking to make high returns. They now prioritize providing affordable loans to clients. In 2010 they are reportedly planning on moving towards mainstream equity rather than debt financing. Basix has reached the final tier where they can directly influence the individuals’ livelihoods. It has the possibility of affecting policy and not only institutional and grassroots development.

6.3.2 SHARE Microfin Limited (SML)

The results from SML were collected through extensive interviews with two upper level managers including S.B. Sadanand, President of Planning and K. Ramalingeswar Rao, Dy. Vice President of Planning.

Background

SML is an NBFC and is the first organization to introduce JLGs in India. The founder, Mr. Udaia Kumar, met Mohammed Yunus in Bangladesh and in 1989 he started his own NGO society. On their official website, SML state that:

“SML started operations in 1989 as a not-for-profit society. It was the first MFI in India to obtain a Non Banking Financial Company (Non Deposit) license and also to carry out a microfinance securitization transaction. SML currently serves more than 2.09 million members across 18 Indian states demonstrating approximately 90% client growth in the past three years. At present, SML caters to the needs of poor rural women through its 4,615 staff members spread across 827 branches (as on 31 July 2009). It holds a total outstanding portfolio of over USD 274.3 million. SML has employed a for-profit approach to create social returns by channeling funds from development institutions and commercial banks as collateral-free loans to Joint Liability Groups (JLGs).^{148,}”

The mission of SML is to mobilize resources to provide financial and support services for the poor, especially women, for income generating activities, to assist them to move out of poverty. SML’s vision is to improve the quality of life for the poor by providing access to financial and support services. In India, the population is 1.1 billion and SML estimates that 35% need access to financial services.

SML uses the Grameen lending approach and thus disburses loans in the form of joint liability groups. The main focus is on BPL (below poverty line) women, earning less than 3000 rupees a month. They require women to arrange into groups of five. The women must be of the same age group and live in the same area. Relatives or family members are not allowed to be members of the same group. The women

¹⁴⁸ Official website of Share microfin, URL: http://www.sharemicrofin.com/aboutus_our_strategy.htm [cited 20090910]

receive training and are then given loans which are to be repaid in weekly installments over a 50 week period.

Services

SML currently provides a number of services, the main one however, being credit in the form of joint-liability groups. The maximum loan size is 25,000 and the minimum is 2,000 rupees. They also provide money transfers, credit-life insurances, and health insurance. The credit-life insurance is mandatory across all branches. The health insurance is a pilot project in three branches but the plan is to expand it to all sixty branches across India. SML is working together with an company to disburse their insurances.

Persons who are in the 5th loan cycle [each cycle is 50 weeks] can receive 25,000 rupees. In the first cycle, they can receive up to 10,000. If clients repay their first loan they can apply for a new loan after 15 months of the first disbursal. SML also provides individual loans to people who have moved above the poverty line and can provide some kind of collateral in order to access higher loans.

Most of the loans that SML obtain in order to finance their operations are in the form of priority sector loans. Any loans given by banks to MFIs in India are classified as priority sector lending. Normal National banks use MFIs because they do not have the same network that the MFIs do in order to distribute the loans. According to SML, 40% of all loans that nationalized banks lend should be to the priority sector. In order to acquire these loans out they depend on MFIs or NGOs.

Supporting Services: Support services include capacity building services where the clients are collected and they are explained the different alternatives they have to create a business. SML does not invest their money in market linkages, however they do provide advice. Local branch managers should be able to offer the RCA's common sense advice and also disseminate information on Andhra Pradesh' BPL initiatives. All the facilities that the government provides, SHARE provides awareness building.

Targeting: SMLs basic target group includes those who have a monthly income of less than 450 Rupees. These people classify as below poverty line and receive a white card from the government. However, they do use certain other criteria to classify their clients also. First they do a survey to see where people's economic stance is after they look at the living conditions and costs at home etc. The field officers are the ones who have the discretion to make the decisions of who receives loans and not.

90% of their clients are BPL. In 2001-2002 they did an impact assessment study. They selected the clients, where 76% of the clients had a reduction in their poverty over the last four years. When they started taking the loan they were below the poverty line and after 4 years 76.8% of the clients were above. They retain the clients even after they were over BPL. Once the clients are above the poverty line, they are able to graduate to individual loans where they can offer some security and they can take a higher loan.

35% of their investments go into agriculture which includes husbandry. "India is predominantly agricultural based, so almost 80% of the population is involved." They go onto say that the families are not wholly dependent on farming. They do not give money for crop loans, only animal husbandry.

Management Perspective

Women Clients: According to the management representatives, SHARE mainly focuses on women because they reportedly are more systematic and responsible than the Indian men. The representatives at SHARE state that although the women receive the loans the money will ultimately be utilized by both sexes. After 18 years of operations the borrowers have not defaulted to any of the organizations that have supported them. As an example, they received 59,000 USD from Bangladesh and Malaysia and repaid all loans on time. In 1994 SHARE started two branches but in 1999 they transformed into a NBFC because they reportedly experienced problems with banks that were a non-profit organization. A company should reportedly be profitable for at least 3 years in order to receive a loan.

Loan Process: It takes about 10-12 days to form the groups of women who will be provided with loans. Training is reportedly an important part of this process. The Field Credit Assistant (FCA) will visit the village where there is a common meeting. Generally people in the village will inform the FCAs about potential clients. After they do their GRT, the FCA will meet the family or women to disburse the loan in cash. The women create a pledge at SHARE and have to come to the branches just once a year for investment purposes.

Initially, three people in the JLG will receive a loan. Once that the loan cycle is complete another six people in the group will be able to receive a loan. The loan recipients have to demonstrate what they did with the investment within fifteen days. If they have not utilized the loan in the proper way the whole group is in jeopardy and can be dismantled.

Reduction in Operating Expenditures: According to the management representatives, their operating expense ratio has improved considerably over the past years from and has been reduced by 50% from 14.9 to 7.8. There has been a decrease because the field credit assistants now reach more people. They used to only serve 200 people but now they serve over 650 per week. Daily, they visit 2-3 centers with 40 women in each center. They attribute the high repayment rate of 98% to the rapport they create with the women in these centers.

View on HR: According to Management, one field credit assistant will be placed in a particular area where they are required to settle. Once a field worker becomes used to a place he or she will be transferred after a year to avoid complacency. In addition, field workers are recruited from a different district to work at a SML to avoid bias.

SML reportedly prefer to recruit people to work in the field that are not overly educated. They, however, require the employees to be computer literate but do also provide computer training. Higher degrees are required for people who want to become branch managers.

Employees wages are productivity and risk based where they have targets that need to be met where 60% is based on the amount of members that they recruit as well as the low riskiness of the individuals. The example of the vice planning president is stressed. He reportedly started as an RCA, demonstrating that if people work hard they also may advance in the company. SML feels that the option to advance is a great motivating factor for the employees.

The management note, that although the work load is pretty much constant compared to when SML started, employees are spending less time in the office in favor for the field. When asked, they admit that field work is more intense than office work. They stress, however, that only those interested in working in

the field are hired and they receive adequate training. A reported prerequisite for a fieldworker is that he or she possesses passion and commitment and not only strive for economic gain. This is reportedly why fieldworkers who are overly educated are not hired. SML's interview process is important as it is designed to find "the right people." The unemployment rate in India is so high, that finding people willing to work is reportedly not a big problem. The holding power of a job is reportedly good since the competition for jobs is high. *"Yesterday he is an unemployed person. Once he comes to the company he will work for a brand... society will respect him now. He is now a representative of SHARE which is one of the largest companies in India. He will be more comfortable, compared to the banking sector as well. Maybe he will be able to reach to the first or second level. Here we have a lot of managers who have graduated with a 10 plus 2 [highschool plus two years of college]."*

The training for new clients takes place at home. It is explained to the employees that it is important that they build up reliability and responsibility for the group. *"Poor people are loyal."* Since they trust the people, the people reportedly trust SHARE. As an example a lady, *"might be 40 or fifty years old. We are teaching them. She may have a skill, but she was not using it. No one showed her how. The chance didn't come. We will explain, we will mold them and motivate them."* They feel that cash is the best way to handle the transactions, but any manipulations and frauds will lead to termination for an employee. The field officers only carry with them 2-3 lakhs which is not that much for them. Furthermore, if they end up mistreating the women they are dismissed automatically.

Five percent of the company's employees are women however they are not usually working in the field. They explain that since FCAs have to travel a lot and are apprehensive of traveling during the evening, it could be risky for women to work as FCAs. They provide the FCAs with transportation on a loan basis where they pay for their moped from their wage.

Expansion and Growth: The work related expansion into new areas is reportedly simple. A senior team visits a new place and stays there for 5 days, collecting data on employment, wage, government structure and how many formal and informal financial organizations exist in that area. Once the report is done, they present it to the senior committee which is then reported to the CEO. When they arrive at a new area, they examine the roads, because the main office in any new area should have a high level of connectivity. Each branch will have a subordinate branch and should cover 30 kilometers. They employ an assistant manager and around 4-5 field credit assistants. This model has been replicated all over India and SML has around 60,000 bank branches in India.

Each training center serves around 60 branches. By March 2010, however, they will plan to recruit 3,000 more employees. Last year SML had a 100% growth rate, a 60% client increase and a portfolio growth of 98%. A growth rate of 80-100% is considered reasonable keeping in mind the demand available. A higher growth rate is considered risky due to SML being a *"human driven program"* rather than a banking acquisition. Without this human resource of well trained employees the integral risk will reportedly be too substantial.

When asked about the extremely high growth rate of certain other MFIs, the management representative responds: *"As a banker, I was assessing other MFIs proposals and there is no reason to run in the race. There is 90% un-met demand. If you run, you lose quality"*. According to management, SHARE is committed to its quality rather than quantity. Therefore, rapid growth is not as important as a high rate of

re-paid portfolios. As long as the stakeholders, board members and legislatures are happy SML will reportedly thrive. Share also values the example their company sets to society.

Relationship with Government: Management believes that the government realizes that MFIs are doing a good thing. Previously, the government believed that MFIs were issuing loans at exuberant interest rates. They had to explain why the MFIs are charging such high rates: Operating costs are at 9%, funding cost is 12.5% and loan loss provisions are 1%. They have a profit margin of only 1%. They need this to be viable; otherwise they would not be able to provide any financial services. SML's management is adamant that they need to charge 15% above their financial cost. This is a recommendable rate according to the founder of Grameen Bank, Mohammed Yunus.

All the twenty-five large MFI NBFCs in India are reportedly lobbying the central government on various issues representing their interests through a separate self-regulating organization. This organization is called GESARO and is headed by a CEO and some staff members.

Efficiency: The MFIs have slowly changed their operation toward computerized transactions. Earlier, all the branches used to stand alone when sending data through CDs. Now data is entered on a daily basis and sent directly to the head office through the use of satellites. It is estimated that seventy-five percent of all MFIs conduct their transactions through online activity. Most importantly, the computerization of the MFIs has freed the employees from spending eighty percent of their time in the office toward spending the same amount of time in the field, a true sign of efficiency, according to the MFI management.

Savings: SHARE has promoted savings, but they cannot collect savings directly at the moment since they are a non-deposit NBFC. Their funding costs would reportedly be reduced if they were allowed to collect savings. Now they are reportedly paying 4.5% on average to all mobilized banks. They reportedly have a huge network of branches through which they would be able to collect savings. Currently, they cannot cooperate with a savings NBFC because the RBI does not permit it. The only thing RBI permits is that a non-for profit NGO act as a business correspondent for a savings institution.

Future Plans: In the near future, SHARE is planning to create an IPO (an initial public stock offering or floatation) which will follow suit of SKS. Last year, they raised 300 million, this year the goal is 500 million and next will be 700 million rupees. SHARE cannot raise this money through banks and have therefore decided to raise money through an IPO. When asked about the changes that an IPO would entail for the organization, management responded that they will have to increase their corporate governance and internal policies due to the issuance of shares. Such conditions will be placed on them when they chose which exchange they will be traded on. The accounting firm Deloitte is reviewing their company at the moment in order to see SHARE's ability of conducting an IPO.

When asked what direction SHARE sees their market heading, they note that they have drawn up a five year plan. The plan is to disburse 60,000 crores (12 billion USD) with a portfolio of 14,000 crores and being powered by 25,000 staff members.

One of the management representatives with an agricultural background, states that he grew tired of working with rich clients at a state bank to help them get richer. Working at SHARE, he earns the

investors approximately 30% profit this year with an inflation of 0-1% (the lowest for a while). He volunteers, however, that the growth of the microfinance market in India is not too rapid.

Challenges: The biggest challenges that face SHARE are the regulatory structures in India. The goal is to make 70-75% profit from their own savings and 30% from other funding. Their cost would be able to come down if they collect savings. They would thus be able to pass the profit on to the borrowers which would provide them with cheaper loans.

Mobilizing funds, raising equity and HR are reportedly also challenges. Keeping the offices at arms' length present another problem. To solve the manpower problems, they are planning on employing 25,000 employees from different states and cultures in the next five years. All of these potential employees will need training, presenting yet another challenge

There reportedly needs to be connectivity between offices and a proper flow of information. Presently the debt to equity is 5-6 times. The SHARE management believes strongly that they should not exceed that.

However, when asked about the possible impacts of these challenges on their mission, the management does not believe that the mission will be diluted in 5 years. They state that although in 1993 they had 20 staff members and now they have 4,500, their mission is still the same. The directors and investors have reportedly a pronounced social mission when they invest money not merely a for profit motive. When asked about what implications the IPOs have on their social mission, however, the management admits that there will be a problem to maintain a social mission since they will be the first company in India to attract mainstream funding through an IPO. However, there are reportedly many people who are interested in investing in SML because of the 27% return that they offer. Furthermore, offering a competitive interest rate is a challenge but all the MFIs are charging the same, so according to management, this should not be a major problem.

The management admits that the services they are providing today are limited. They are planning to increase their services by providing money transfers, life incident insurance, mutual funds and marketing services. Large retail manufacturers are approaching them to market their products which they believe presents an additional opportunity. SHARE will be able to use their distribution channels from credit to distribute other company's products. Furthermore, SHARE is looking into providing their customers with market linkages so they will be able to receive the most amount of money for their products.

View on Competition: The management at SML feels that there is an unnecessarily unhealthy competition. For example, when there are other companies that steal clients by offering higher loans for the same interest. The management state that the competition only give loans people who own homes, and another prerequisite is that they have been living in the area for t three years. To curb this problem, MFIs are coming together to form SEB Credit Bureau in India. When asked about losing clients to companies that offer higher loans the managers explain that SML has a 50,000 rupee cap on micro loans. However, they do offer separate loans for people who have moved up the poverty line and have become eligible for individual (higher) loans offered on collateral basis, i.e. to purchase an auto-rickshaws or to purchase a micro enterprise.

SHARE reports having np problem with people borrowing from other loan organization if they need more money than SHARE can offer. SML estimates that there is a general borrowing demand of 40'

crores and MFIs only offer 10' crores. The most important, according to Share, is that their customers are able to repay the loan to SHARE on time. They feel that informal money lenders still do exist but don't have the same vigor as MFIs.

Field Officers' Perspective

One of our interviewees started at SML as a field officer and later advanced to a management position. We asked him some pertinent questions since we did not get the chance to meet with a current field officer. We quickly realized, however, that he answered from a management perspective. We chose to include his response, however, since it was the only information we were provided from a person with some field experience.

View on HR: When asked about if he, being a male, experienced any difficulties approaching clients, who are predominantly rural females he responds, *“No, and I would like to add that all the boys are selected at a very tender age...Especially field grade assistants.... The maximum age is 30...that's a very tender age. The kind of cultural values and respect they are supposed to give, all those are taught in the training centers.”*

When asked to tell us a little about the training that field officers receive, it he reported that the training lasts for fifteen days. After their training period, the new employees will shadow a senior official. The training is concluded with a final test regarding their learning experience. The field workers will earn a stipend during the training time. Asked about the characteristics of an ideal field agent, we are told: *“He has to be very polite, low profile, very flexible. His statement should be sober, medium and soft.”*

Company Specific Initial Analysis

SML has a 50 week payback period. This is a relatively long time and does not allow members to have a high loan turnover. There is a definite tradeoff between longer payback periods which decrease defaults compared to shorter periods which are more convenient for the consumer of the loan who wishes to have a high loan turnaround.

SHARE's funding costs are reportedly high because they are not able to collect savings. Thus, interest rates on loans are at 24%. If the MFIs, however, were able to collect savings they would be able to charge their customers only 19.5%. The lenders reportedly have to have to pay the 4.5% of this interest rate. If they were able to save they would be able to use their well developed distribution channels which they distribute loans to individuals and collect savings. SML relies heavily on cheap priority sector lending in order to finance their loans. Reducing transaction costs are important for MFIs. SML has tackled this by increasing the workload for their FCA's. They have also increased the number of people their employees see per week from 200 to 650. SML is also using technology to their advantage in order to create better accountability as well as reduce transaction costs.

SHARE states that they generally assist people in agriculture. *“India is predominantly agricultural based, so almost 80% of the population is involved.”* Upon examining the numbers it was found that only 35% of their loans fund agricultural activities. When further investigating this category it was discovered it only contained husbandry. Thus it seems like the real rural farmers are being left out of the picture.

SML require people to come from different regions than the areas they service. They also ensure that employees do not stay too long in an area. PSC, to the contrary, believe that hiring people from the same

regions and keeping them there for an extended amount of time will create a deeper rapport with the villagers. Furthermore, SML do not want people to be too educated. They are apprehensive that the employees would be dissatisfied if they were not utilized for their full potential. In addition, SML believes that women are not best suited to work in the field. Their rationale is that a FCA is required to handle a lot of cash which unscrupulous individuals could try to steal which would put the women at risk.

SML, like Basix, has reached a higher tier of influence. Not only do they have influence on other MFIs as well as the women that they service. They also influence the government where they are members of lobbying organizations that will act on behalf of MFIs trying to form policy to their benefit. Similarly to Basix, SML is looking to reach more mainstream funding. This would enable them to avoid debt financing and raise more capital, to the contrary of banks. This is probably because banks still find this to be too risky and are thus weary to lend such high amounts. If however, they were able to raise money through savings, they would only use 30% equity financing. Like other large MFIs, SML is beginning to realize that there is also money to be made in marketing other large multinational enterprise's products. A large number of organizations have reportedly contacted them to market their products. The question is if there are any ethical responsibilities that such firms have if they are to 'sell' other company's products to their customers.

Comparing themselves to SKS they believe that SKS is growing too fast. An ex-bank manager, who handled loan requests from the major MFIs, stated that he would find the SKS' loan applications too risky. He believes that 100% growth rate is the maximum rate possible without the operations becoming precarious. Since the company is human resource driven there is reportedly not enough manpower to supply a higher growth rates

SML explained that there is a 50,000 rupee cap on loans by the RBA of India. This is often too low so the people often go to other MFIs to look for other loans. Interestingly enough, the management at SML have no problem if individuals go to other MFIs and lend from them as long as they are able to repay the loans which is in line with other MFIs interviewed. SML was adamant about providing business counseling to customers. However, this business counseling appeared to be on an adhoc basis and there was no formal protocol on training customers. SML retains the clients even after they have gone above

6.3.3 SKS Microfinance

Results from SKS were collected from interviews with three employees at the branch office including the branch manager, one guide and one manager at the head office of SKS and one representative from management



The disbursement of 15,000 rupees to the woman on the left from SKS' field officers (right) and group leader (Center back row).

Background

SKS ASSIST was started as an NGO wing to service the ultra poor. After a few years of operating, the founder and Chair Person, Ms. Vikram Akula, reportedly realized that funding was a problem when operating as a non-profit company. After SKS became an NBFC in 2005 funding has reportedly become less of an issue. Ms. Kashimi, a manager who works within marketing and communications at SKS, explained that currently SKS is working on a for-profit model, unlike the Grameen Bank. It is reportedly registered as a non-banking financial company. The majority of their funding is reportedly provided by NCDs, commercial papers, equity rounds and venture capital investment. In addition, SKS's portfolio is securitized by various banks. Ms. Kashimi believes that it is easier today for MFIs to receive finance because it is viewed more positively: "*if it is a good business, people will want to invest in you and you will be able to scale and grow much easier*".

.SKS's formal mission is "*eradicate poverty by providing financial services to the poor and by using their channel to provide goods and services that the poor need*" Their **vision** is to serve 50 million households

across India and other parts of the world and also create a commercial microfinance model that delivers high value to their customers¹⁴⁹”. They currently have a 99% repayment rate and over 15,000 employees working in over 1500 branches in 60,000 villages.

The founder, Mr. Vikram Akula states: “As a leader in technological innovation and operational excellence, SKS is excited about setting the course for the industry over the next five years and is striving to reach our goal of 15 million members by 2012.”¹⁵⁰”

Services

“SKS provides a full line of financial products and services specifically customized to meet the needs of its clients. SKS’ core products are for income generating activities with the belief that its clients have the best understanding of how best to employ working capital. SKS is continuously working with its clients and partners to improve and extend its product offering¹⁵¹”.

SKS’s services include loans and insurance, as listed under ‘products and services’ on their official website www.SKSindia.com. However, according to the management, they also provide 10% of their members, who operate stores, with products from firms who want to sell through SKS’ channels. According to Ms. Kashimi, this helps SKS’ clients who operate small retail outlets to save time and money. SKS also provides disaster management and are looking into providing loans for housing and housing repairs as well as education.

The management explained that they are planning a number of services which are not yet operational. Such services would include mobile water purification facilities as well as solar lamps that would power homes and shops with erratic electricity.

When asked about whether they provide any consulting services Ms. Kashimi explained: “No we don’t do that. Basix is doing that. See, what we think is that most of these people have been running the same kind of enterprise for generations, so they know their business best. We just know how to provide credit. So we only stick to that. Basix has a research team that figures and they have their own research team that helps the farmers” Ms. Kashimi clarified SKS’s relationship with Basix and their services saying: “We don’t do any of those projects so we are not even a competitor.” She explains that they do not have the expertise, they just know how to provide financing and that each MFI has their own philosophy and capability. Their website states: “Some NGOs offer microcredit as one slice amongst a host of non-financial development activities. SKS has opted instead to focus solely on microfinance, to develop the most efficient and effective mechanisms to deliver finance to the poor”¹⁵²

Management Perspective

Targeting: In order to become a client at SKS, one has to have an existing enterprise or invest in a form of livelihood. Most of the members take loans for trade (32%) and 24% to livestock and 24 % to services respectively whereas only 3% goes to agriculture. Agriculture is almost non-existent because of the

¹⁴⁹ SKS official website, URL: <http://www.sksindia.com/background.htm>, [cited 20090912]

¹⁵⁰ SKS official website, URL: <http://www.sksindia.com/background.htm>, [cited 20090912]

¹⁵¹ SKS official website, URL: <http://www.sksindia.com/products.htm>, [cited 20090912]

¹⁵² SKS official website, URL: <http://www.sksindia.com/background.htm>, [cited 20090912]

inconsistency of the income generated through agricultural activities. Thus farmers who rely on income after the time their crops are grown and sold will have trouble paying the weekly installments.

SKS classify people into two groups. “The upper poor” earn 1-2 dollars per day. In India there are 70 million “upper poor” according to Ms. Kashimi which makes the client base extremely large. “The lower poor” subsist on 1 dollar per day and have skills, however no assets. SKS estimates that there are around 80 million of such households in India. According to management, the borrowers generally have a Return on Investment (ROI) of 100% because: 1) they do not pay taxes, 2) they employ people in their family and 3) they work with micro enterprises and thus they have low investments.

Ultra poor: According to SKS, the group labeled “ultra poor” are defined as the people without assets or skills. The SKS management believes that this group is diminishing. They are usually people who live on the periphery of society. The ultra poor are generally families led by women that lack confidence in running an enterprise. For them, SKS’s NGO provides them with an asset, for example, livestock or a small store. They train them on how to run the business and give them an education. They monitor them for eighteen months until they are able to graduate to the MFI sector. According to their official website however, “*SKS Microfinance Limited (SKSMPL) is partnering with SKS NGO that is currently running a pilot phase of the Ultra Poor program. The program, was launched in April 2007, is being supported in-kind by SKSMPL yet is an autonomous entity that incorporates the necessary social, health, training and savings components into the program. Phase I of the pilot program is working with 426 members in 100 villages in Narayankhed Mandal of Medak district, Andhra Pradesh. Phase II will expand its reach to 1200 members in Orissa by October 2009¹⁵³*”. The ultra-poor initiative was started as a replication of the BRAC program that has proven to be highly successful in Bangladesh. However, as it is still in a pilot phase, not much can be said about its success in India yet.

Insurance: By nature, the poor would put money in a jar, according to Ms. Kashimi and when there is an emergency the money would be gone. SKS is working with this Alliance to provide insurance services. Every week the customers of SKS save 20 rupees and when the insurance coverage expires, they receive 5,000 and if they die they receive 10,000.

View on HR: They have 14,250 employees and most of the employees are field staffs that have high school degrees. 90% are from the same geographical location as their members. She admits that “*If I’m disbursing money on a daily basis, I could perceive myself as a demigod*”. Thus SKS has a responsibility to ensure that the field staff is not corrupted. SKS reportedly has an internal audit system to assure that the employees maintain good morals and ideals to further prevent corruption; the employees are transferred from one location to another whenever needed.

According to management, Mr. Vikram is very interested in the Starbucks concept of conducting business. SKS therefore has factory style recruitment and its workforce grows with about 1000 employees per month. The employees undergo training for two months and shadow a field assistant before they start work. SKS reportedly adds 50 branches, and 300,000 customers per month. Before their branches used to do everything by hand but now they have developed their own MI System. They are working on upgrading their system and developing a data warehouse to reduce costs.

¹⁵³ SKS official website, URL: <http://www.sksindia.com/sksultrapoor.htm>, cited [20090912]

In response to security and checks and balances, SKS management assure that the field staff account each day for how much money they manage and how much they spend. Nobody reportedly is allowed to conduct money transfers. SKS reportedly tried using a smart card but it was reportedly impractical. In addition, mobile banking was used to reduce transaction costs but was reportedly placed on the back burner because of security issues.

Consistency: SKS uses a portfolio tracker. This is used in 19 states to ensure consistency. Ms. Kashimi states that this is to ensure that there is the same ethics governing SKS in the different states.

Formation of Groups: When the fieldworkers visit a new village they reportedly initially talk to the Sarpanj (the village council leader) and the villagers. The women are then reportedly instructed to discuss who they want to be members in their group. After the members have joined the groups, they reportedly receive four days of training. After the training, the branch manager administers a verbal Group Recognition Test (GRT) to the trainees. Finally, the village center is started where the village members can congregate and support each other's efforts.

Costs: SKS estimates that their costs are approximately as follows: Personnel around 6.5%, administration around 4.5%, funding cost around 7.5%, profit 1.5%, and loss of funds around 1%. The cost to the borrower is 26% diminishing which works out to be between 12.5-15% per annum. Today SKS has 4.4 around million members. SKS insures the members as well as their spouses, providing insurance for roughly 8.8 million people. They have provided 1.9 million people with health insurance and 1.7 million people with retail insurance although the latter had only begun 10 months ago. They have \$526 million outstanding loans and have disbursed in total \$1.6 billion.

View on Competition: Ms. Kashimi does not view any other company as a competitor because she believes that they are providing a different operation and that they are operating on a higher level than everyone else. She believes that although there are MFIs who will share a village or an area SKL would reportedly leave if someone was already there. The members are obliged to fill in forms to declare if they have taken loans from someone else.

When asked about the cooperative bureau of information exchange that Basix has been lobbying for and other interviewees have mentioned, Ms. Kashimi acknowledges that she has heard about it but does not know how it is progressing. The management representative, Ms. Kashimi, is hesitant to answer when asked about whether SKS has been working with the information exchange. She mentions that there is an organization called Sadhan where all MFIs are members. This is reportedly because she feels there is a need for organizations to work together to interpret and understands government regulations because India is so unorganized.

Government Involvement: Each government from each state differs and each reportedly has their own schemes. The government provides some funding through the NREG (National Rural Employment Guarantee), but this is unrelated to SKS funding. There are, however, reported problems where the borrowers claim they have received a loan waiver from district governments. The borrowers, however, don't answer to the government about their loans but rather to RBI. Ms. Kashini explains that the income

of the poor is varied and includes an array of jobs, so they reportedly “lap up the money where they can get it from.”

Future Plans and Challenges: When asked if SKS plans on going public, the manager pauses for a while and seems hesitant to answer the questions but then notes, “*Who knows, it’s not the time to say and the markets are down so right now would not be a good time to go public.*”

By 2012 SKS reportedly plans to disburse \$60 billion and by the end of 2009 they plan on disbursing \$6 billion to customers. By 2012 they hope that their total customer base will be 8 million. According to management, they have created history by gaining 1.7 million customers in 10 months. All SKS’s center leaders were called on to organize a company interface where they could discuss different pertinent issues and have the chance to meet SKS management. Ms. Kashimi states that SKS was the only MFI to have organized this type of meeting (Singha meeting) and since then have had over 100 of such meetings. According to management, there is a possibility that SKS has to open up a savings wing because of its rapid growth, however, Ms. Kashimi states that they rather not open up bank offices.

When asked about SKS’s current challenges, the management notes that due to SKS’s rapid growth, it is going to be hard to hire the controlling field staff needed. Most field workers are children of members who could potentially lead to conflicts of interest; SKS also has a huge internal audit system. “*We need to get the foundations straight,*” according to Ms. Kashimi. However, Ms. Kashimi also notes later that she believed that SKS’s foundation is solid and that their internal audit system is sound because it is certified by ISO. They mention that they have covered most states in India and next year SKS will concentrate on the quality of members instead of quantity,

Marketing and Communications’ Perspective

Our field guide, who is working with marketing and communications, accompanied us during the entire field visit. She has worked at SKS for a year and a half. She explained that most of the MFIs were entrepreneur run. SKS has, however, reportedly realized that they need professionals to run the business. Therefore, SKS has had a drive to hire professionals for the past 3 years, e.g. a new CEO and a CFO were hired a year ago. She believes that the new professionals have made a difference and she points out that SKS grew considerably during this period. The finances have also reportedly improved and despite the recession, all the non convertible debentures and commercial papers have come into the company.

Our field guide reportedly started working for SKS because she wanted to find an untapped sector with a good growth curve during the recession. She is a student who wants to study management and believes reportedly that microfinance was a good choice for her. Her position involves research; youth letter writing and short documentary films on SKS. She had reportedly never had the chance to speak with rural people until she went on her first field visit. She loves the hands on experience and reportedly sees herself one working as an area manager in micro financing after she graduates. She hesitates when asked if she sees the development work as purely business. She notes that it is different from corporate work because of the contact with the rural customers. In addition: “there is a lot of emphasis of on core values.”

Field Officers' Perspective

The interviewee started working in SKS as a field officer. He has reportedly advanced through the ranks working in different districts. In 2006 he started in the primary branch as a field officer. He transferred to another department and after 3 months was promoted to vice Branch Manager. After 6 additional months he was promoted to a Branch Manager. He reportedly hopes to one day become an area manager.

Job Satisfaction: He says the reason he wanted to work with SKS is that *“It is satisfying and serving the people, and helping them is good. The career is good and there is a lot of job satisfaction where I like my superiors”*.

He has reportedly worked all over India and says that he is ready to go anywhere. He noted that it takes time to go to the place and get settled in a novel environment and meet new people. When asked about how clients see a new person coming in he states that there are many problems. After a heated discussion with the marketing representative in Marathi, however, he notes that there are no major differences in their view of a new person since processes are all the same

Changes in people's lives: When asked if SKS has effected changes in his clients lives he reports that there have been many changes such as in the children's level of education and expansion of businesses. When asked if he has witnessed these changes he admits that he has not. This is reportedly because he is transferred so often due to company policy.

The Clients and Loan Process: He reports that 90% of SKS's customers earn less than 3000 rupees per month and classify them as “very poor.” The field officers reportedly monitor the members to see if the loans are being utilized properly.

Informal Money Lenders: The unit manager admits that there are areas where money lenders dominate. But he says that once the MFI steps in, the people get accustomed to lower rates provided by SKS. However, he admits that sometimes there are people who do lend from informal creditors and explains that such sources of credit are used because of the expediency of their lending.

Competition: There are reportedly four other MFIs operating in his area and clients sometimes get loans from various institutions. He believes that this normally happens when people need larger amounts of money. He states that there is good communication between the various MFIs operating in the same area. The SKS representative, however, intercedes, stating something to the field officer in the local tongue. The field officer then revises his report saying that there is no communication between the MFIs and that they never interact. The fieldworkers just go to the field, do their job and return.

Problems with Local Government: There has reportedly been an incident of reported problems with the local government in the Adilabad district, and SKS was unable to disperse a loan. Generally when SKS experiences problems with local leaders problems resolve themselves when they explain what SKS is doing.

Challenges: In the field officer's view the savings products will improve over time. The SKS schools are reportedly functioning well, however there are only have 10 schools in Andhra Pradesh and more are needed. Another challenge is reportedly that the services within IT are not standardized. SKS hands out

mobiles to its members at a low cost from Nokia. He believes the daily need based items distributions are going to grow specifically in areas of food where they will utilize their credit distribution channels will be used to disburse other goods.

People's Perspective

Unfortunately, due and the researchers lack of skills in the Marathi language, it was not possible to communicate directly with the clients. The SKS translators were company representatives. We therefore decided not to include the translated views of SKS people. We deemed this decision to be reasonable since we would most likely only receive biased information from the clients.

Other Observations and Contextual Setting

While interviewing the employees at SKS it was easily noticed that many of them tried to put everything in a good light. This happened in a number of ways but specifically in terms of being able to speak one's mind when faced with a SKS authority (See Reactivity). Furthermore, the management interviewed did not answer certain questions or disclose certain issues. The researchers believe that since she was working directly under the president of communications, she felt that she did not have the proper authority to do so. Furthermore, since our guide was relatively new within the microfinance industry and at SKS, there were instances where she did not want to overstep her authority when discussing sensitive topics.

In terms of women at the village, those that were asked seemed to have had produced significant returns from loans made at SKS. Many had started businesses that involved a great deal of independence on their part which could be a sign of independence. Furthermore, many of the women had not covered their hair with scarves which could possibly be a sign of empowerment. However, this could also be a sign that the area the researchers visited in Andhra Pradesh was less conservative than other areas we visited in India.

Company Specific Initial Analysis

SKS has a realistic view on their operational capacity. Ms. Kashimi was adamant that SKS only provided credit because that was what they were good at. SKS used this reasoning as a justification of why they did not provide any other BDS. SKS has a stagnant view on who they consider 'poor' or below the poverty line which is much different than the Planned Social Concern. Servicing the ultra poor who have no assets, skills nor livelihood is a costly venture SKS has made little impact on this front.

SKS admits that one of their biggest challenges will lie in having sufficiently trained staff. Ms. Kashimi explained that there has been a shift in policy within the microfinance market as well as within SKS. They now seek to employ 'professional' staff rather than developmental entrepreneurs. This process of shifting towards a corporate operational model is reportedly a necessary step for the company to be able to grow. Employees are often transferred from one location to the next in order to gain more field experience and to reportedly ensure that they do not become too power hungry. This has its disadvantages however, e.g. adapting to new cultures, building the trust of clients and getting to know your new colleagues becomes difficult for the field staff. The branch manager's quick climb up the SKS ladder shows how fast the industry is growing and in particular how fast SKS has moved forward.

Again, consistency throughout the organization seems to be important for larger MFIs in order to grow and scale operations. Although the SKS management seemed hesitant in discussing whether they would

conduct an initial public offering, we heard from numerous sources that this was indeed their plan. This made the researchers question why they had been secretive of such an action.

Ms. Kashimi noted that it was policy to leave a new area if there already was an established MFI there. However, several other MFIs explained that SKS had penetrated their areas of operations. In addition, the field staff explained that there were other MFIs operating in the area. Informal money lenders are now viewed as a source of last resort where money is needed immediately.

6.4 Local Area Banks

6.4.1 Krishna Bhima Samruddhi Local Area Bank Limited (Samruddhi Bank)

Results collected on Samruddhi Bank were conducted through a workshop that the researchers participated in at KBS' headquarters which involved a lengthy presentation and Q&A session



The CEO, Mr. Manmath Kumar Dalai of KBS LAB goes through a presentation of the bank in the boardroom.

Organizational Background:

In 1999, Krishna Bhima Samruddhi Local Area Bank Limited (Samruddhi Bank) was set up by Bhartiya Samruddhi Investments and Consulting Services (BASICS Ltd.), the holding company of Basix group alongside the NBFC operations. After receiving a license from the Reserve Bank of India, it began

operations in three districts according to the regulatory framework of that governs local area banks: Gulbarga & Raichur in the state of Karnataka and Mahboobnagar in the state of Andhra Pradesh. Today there are four local area banks operating in India however Samruddhi Bank is the only one that is engaged in microfinance. The Basics holding company is still the primary shareholder of Samruddhi Bank with an initial investment of 50 million rupees.

The mission of Samruddhi Bank is *“To be a sustainable local community based institution providing financial services to the underserved, particularly rural poor and women and to arrange provision of technical assistance and support services to the borrowers with the ultimate goal of promoting a large number of sustainable livelihoods in the area”*. Through the use of a local area bank model which was set up by the Reserve Bank of India in order to organize savings for the rural sector, KBS LAB has been working to fulfill its mission. According to regulations, KBS is expected to lend 40% of its net bank credit to a priority sector. 25% of the funds are proportioned for the “weaker sector” or the “poorest of the poor.”

Services: KBS LAB is a doorstep delivery service provider with the help of mobile banking and a business correspondent which allows them to reach the rural communities more efficiently. Today Samruddhi has 14 branches, 18 business correspondents, 40 satellite offices and two mobile branches. They serve 1600 villages and have 100,000 active customers who are utilizing KBS’ services at the moment and 200,000 customers in total. They reportedly plan on increasing their customer base to 500,000 in five year’s time. There are 3645 villages and 6.5 million people living in the area where KBS LAB operates demonstrating an immense growth potential.

Samruddhi offers a number of financial products including short and long term savings (fixed and flexible) deposits and insurance distribution. KBS operates as a third party service provider and has partnered with UTI Mutual Fund, a state run organization. They offer one of India’s first micro-pension products for the private sector. It is unusual for micro finance institutions to offer pension products, according to Mr. Manmath Kumar Dalai, the CEO of KBS. The bank also offers a number of specialized products such as agriculture development services, livestock and weather insurance, animal vaccination camps, artificial insemination, market linkages, retail distribution network and micronutrients applications. In order to provide sustainable operations the agricultural and business institutional development services and business services are fee based. KBS charges 3000 rupees per session providing sustainable operations.

The bank has a small staff base; each branch has five people and a staff member covers ten villages and 300 people. Every branch provides two livelihood services, one covering husbandry and the other agriculture. KBS’s HR policy, training, hiring and the performance based salary are the same as Basix’s.

Technology: The KBS’s operations utilize modern technology. The field staff utilizes handheld computers to transfer transaction data directly to the head office. In addition, KBS is developing GPRS technology to allow transactions to be automatically transferred to the head office without delay.

Structure: The KBS LAB structure has great impact on its operations. Mr. Dalai noted that its savings function was a great advantage compared to a regular non-banking financial institution. There is,

reportedly little difference between a regular NBFC and KBS LAB in terms of loan products. KBS is, however, allowed to lend an unlimited amount whereas MFI's are only able to lend up to 50,000 rupees.

There are reportedly a number of disadvantages of being a local area bank. The legal structure is a local bank's major constraint, according to Mr. Dalai. Samruddhi is unfortunately not considered to work within development even though they work primarily with microfinance. Hence they do not receive priority sector lending and loans made to the bank are only considered to be inter-sector lending. NBFCs on the other hand are classified as working with microfinance and are able to receive debt at rates much lower than KBS under the title of 'priority sector'. Because of not being able to qualify for cheap and affordable debt KBS is reportedly unable to scale up to the extent that other NBFCs are. A KBS consultant at a meeting noted: *"It's a mental perception that commercial banking is not micro-banking. Micro-banking is a poverty alleviation, social development, charitable, good intentions, and feel-good kind of thing. Commercial banking is all that other stuff."*

KBS is required to keep a reserve requirement of their outside liability (24%) at the central bank where they only get a yield of 7%. They would have been able to lend such an amount at 24% but are forgoing a 17% return by following the central bank's reserve requirements.

Savings and other products relating to mission: Savings is an integral part of KBS LAB's operations. Mr. Dalai believes that it is the most important service that KBS LAB can offer which is in line with the beliefs at Basix. The bank did not offer savings for the first five years, however, in order to accumulate interest that would grow their capital base. Today, they concentrate on micro-savings and 65% of all their loans that they give are funded by savings where as only 35% is funded by development investment bankers. Mr. Dalai expressed the need for BDS services over just the provision of credit which is highly related to the mission of KBS: *"Forget the companies, forget the legal structure, but if you look at the various arms of organizational structure, you really have to look at the BDS component, because what are you ultimately financing and are you really enhancing the social safety net which has not been provided by the government. Because pension for instance, if you are unorganized, you've worked for 80 years as an old lady, if she does not have a child who is willing to take her in, at 80 years of age, she has nothing. She has worked for 80 long years and she is still carrying wood on her head on her way home to work. Pension is critical. Health is critical. ...You cannot achieve impact on the ground unless you provide quality, not just any BDS, but quality Business Development Services, that's actually one of the biggest challenges"*

Expansion: Due to growth constraints placed on KBS when starting their operations they are unable to make the impact they had originally intended, according to Mr. Dalai. They are currently considering whether to expand the local area bank model or not. Mr. Dalai is reportedly hoping that this year's new government will revamp the regulatory system governing local area banks. This would allow Samruddhi Bank to expand its operations. If the overhaul does not take place, there is an option to merge KBS LAB with Basix's NBFC arm in order to continue its microfinance model. However, Mr. Dalai hopes that this will not occur because he believes that the real need of people is savings and not credit. *"If people want to compete with credit, they can do that. Savings helps people more."*

Customers: People's perception of KBS LAB has changed over the years, according to Mr. Dalai. Some still believe that KBS is a risky institution due to its relatively undersized operations. The bank has,

however, become somewhat of a household brand name in the areas of operation. Through marketing and branding efforts, Mr. Dalai believes, people's perception of the bank will change with time. Currently, they have raised their branding and marketing budget by three times compared to last year.

Mainstreaming clients is important for KBS and hence they only provide three loans cycles. KBS is allowed to lend over the NBFC mark of 50,000 rupees, they have, however, decided to set their own ceiling. Once a person has gone through the third loan cycle which generally amounts to 50,000 rupees, they encourage clients to set up accounts with formal banking institutions. *“Originally the goal of microfinance was to mainstream clients once they had viable income. But somewhere along the road the microfinance companies started to smell the profits...We try to stick to the original mission.”* KBS does not completely follow the Grameen model where 75% of their total lending goes to joint liability groups, 18% to individual lenders and 7% to self help groups.

KBS LAB targets mainly economically active clients who are involved with activities where investment would scale up their operations and help them financially. However, they are aware that often loans are not used for economic activities. Furthermore, Mr. Dalai explained that farm work only constitutes a number of months out of the year. After they are done harvesting their crops they attempt to find other subsistence elsewhere. *“If travel to a village in India, rarely will you find someone that is economically active”*. They try to avoid migrant workers who have no fixed address. Despite that, often semi-fixed workers such as gypsies settle down for a number of years. Hence they have a semi-permanent address which enables KBS to lend to such workers.

Peoples' Perspective

A microfinance convention, held by the Livelihood Academy took place during our field visit. There were representatives from many nations present for the convention who also wanted to ask questions. Nonetheless, we had the opportunity to speak with some people, particularly a group of eight men. The men collectively ran a dairy using a village level procurement center. Basix Holding Group and subsequently KBS facilitated the value chain by providing technological investments from Reliance Insurance Company and the milk sold for an average of 32 rupees per liter. The men seemed happy about the functioning of the dairy. The group started out as a JLG which started loaning from KBS to purchase buffalos. The group leader noted: *“Initially they had doubts. Five years ago they had cooperation with a state dairy but had problems with addition of water to the milk and delayed payments. They though this could be similar”*.

The men admit that there are other companies operating in the area, specifically SKS and SML, but even informal money lenders still exist. They state that they prefer KBS due to the long and tedious weekly meetings as well as weekly installments models used by the other companies which would cost them too much time away from their crops.

Company Specific Initial Analysis

The main hindrance for KBS LAB involves their rate of expansion and coverage areas. Legislation again seems to be the culprit to this problem. When asked about it, management revealed that KBS LAB will merge with Basix' NBFC program unless legislation changes. If they do merge, however, they will go against their original mission of focusing on savings instead of credit. Unlike NBFCs, they are unable to

receive competitive priority sector lending debt. This unduly raises the rate of interest charged to their borrowers. The above issues show that the legislative problems plaguing the microfinance sector in India not only affect NBFCs and NGOs but also local area banks.

KBS LAB has a very different perception on the purpose of microcredit and attempts to mainstream their clients once they have reached a certain tier of income. KBS focuses primarily on business and agricultural development services which sets it aside from many of the other MFIs interviewed.

Most microfinance institutions interviewed used word of mouth as a means of marketing and attracting new customers, KBS has understood that traditional means of marketing, such as billboards, are affective ways of attracting new customers and changing their perception of the organization.

6.5 Cooperative Banks

6.5.1 Self Employed Women's Association Bank (SEWA Bank)

Results were collected through the interview with the head of the clearing department, Hiral Shah, one field officer and three women and their families.



Maira observing a confrontation between a field worker of SEWA and a loan taker who insists that her payment has been made.

Organizational Background:

The Self Employed Women's Association (SEWA) started in 1972 as an initiative to bring together 4,000 female workers under a trade union. Today there are over one million members and is reportedly India's largest single trade union. Its mission is to bring self-employed poor women together. The SEWA movement is a convergence of the cooperative, labor and women's movements. It benefits four main categories in the labor force: Hawkers and vendors, home-based laborers, producers and manual laborers where 96% are in the unorganized sector. SEWA has expanded its operations and today it services women in eight different sectors: health care, child care, SEWA Insurance, legal services, capacity building of SEWA members (SEWA Academy), housing and infrastructure, Video SEWA and SEWA Bank. While not all of these services are self-sustainable, SEWA understands that women do not need to be reliant on subsidization and are willing to pay for their services. With this operational model, SEWA's child and health care, insurance and banking services have all become self-sustainable.

SEWA Bank and Services: Since most of these women were considered un-bankable and lacked access to capital along with ownership of assets, the Shri Mahila Sewa Sahakari Bank was started in 1974, registered as a cooperative bank and regulated by the Indian Federal Reserve and the State Government. In 1974, 4,000 members contributed Rs. 10 each as share capital and today there are over 93,000 active depositors. SEWA Bank has many objectives which include linking members to their own insurance providers, enabling savings opportunities, and eliminating the need of informal and costly credit. SEWA bank works closely with the other offshoots of the SEWA movement and holds true to its mission "*to reach out to the maximum number of poor women workers engaged in the informal sector and provide them suitable financial services for their socioeconomic empowerment and self-development through their own management and ownership*". SEWA Bank offers a number of services which include savings options, loans and insurance products, financial counseling, business counseling and training programs on how to effectively utilize SEWA's services.

SEWA has opened 3 offices for easier access and plans on opening a three more branches within the next few years. The easier geographical access to the banking offices prevent women from losing a day's wage in order to travel to a bank office. Furthermore, mobile banking vans were pioneered by SEWA in 1978 in order to conduct doorstep banking. SEWA bank created 'Banksaathis' (hand holders) in 2000 to reach the customers and provide adequate counseling. The frontline Banksaathis are members of the community of which they work in and typically are involved in the same activities as the women they are servicing. Loan applications are judged on a number of factors including the regularity of their income, unpaid debt installments, number of family members, the legal status of the slum the women lives in, and other potential troubles that would hinder the repayment of a loan. Once the Banksaathi gives a recommendation of eligibility for a loan, a bank facilitator makes the final judgment.

Women receiving a loan from SEWA must first open a bank account, which costs a mere 50 rupees. 40 additional rupees enable the women to purchase an ATM card. SEWA does not totally exclude men however, and families are allowed to open joint accounts where men are also able to save funds. After 6 months and an accumulation of saved capital, women are then able to take a loan from SEWA with the signature of 2 guarantors. One should be a public official who verifies the creditability of the woman. These guarantors work as collateral for the women and in case of failed repayment, they are required to pay. The interest rate on loans is at 1.5% monthly or 18% annually with a reducing rate.

SEWA Bank also provides loans to the urban sector although most individual loans are concentrated in the rural sector. In the rural area are loans provided by 6,000 SHGs with six federations. Groups are organized each with ten members and deposits are placed at SEWA.¹⁵⁴

Management Perspective:

Human Resource and Mission: Ms. Hiral Shah, the manager interviewed at SEWA Bank, holds a position as the head of the clearing department at SEWA bank. She handles the presentations for the board of directors. According to her, the workforce at SEWA has a high level of task diversification within the organization. This she believes creates a situation where women are knowledgeable of most operative tasks within the organization.

In order to ensure that the goals and mission of SEWA are held by the organization, Ms. Hiral believes that the best method is to ensure that SEWA's employees work in the field. *"This gives you an inspiration to why you are working for the women."* When staff visits the field they collect savings, introduce SEWA Bank and get acquainted with the women. The SEWA umbrella organizations have approximately 50% of their employees working in the field. When new things arise within the organization, meetings are organized so that the employees are properly informed. Furthermore, when a new employee is hired, they go through a week long training session where the purpose and mission of SEWA is introduced. According to Ms Hiral: *"If you want to know about SEWA bank and how these women are working, then you definitely have to go once and visit the women so you can come to know the model and mission of SEWA bank."* SEWA bank does not have a formal policy of hiring workers from the same villages; however there are certain areas where they do. Currently they have a relatively small workforce consisting of 150 employees, mostly women. Ms Hiral believes this is beneficial due to women being able to understand their clients to a better degree.

Ms. Elaben Bhatt is the founder and has shaped the organizational SEWA culture. She has seen the organization grow from a small collective to a wide array of services. Throughout the interview, Ms. Hiral Shah referred to the founder warmly and it is apparent that Ms Bhatt is not only seen as the sculptor of SEWA's organizational culture but as an integral part of it. Ms. Hiral believe that the SEWA bank employees are generally there to stay. As a personified example Ms. Hiral has been working at SEWA bank for 9 years. *"In the corporate sector you see that if you will get a better salary, you are going to jump. It is not that way at SEWA bank."* The job atmosphere is the main catalyst for the employee's retention according to Ms. Hiral. *"Ninety percent of women are working here for the benefit of the women. So the atmosphere is that they are doing something good for these women"*

In terms of future, Hiral believes that growth and managing SEWA's risk will be the greatest challenges. They will have to ensure that their repayment remains the same at 99% and that their loan to savings ratio is not too high. However, she does not believe growth will change their original mission and drive. She notes that SEWA has grown from a small organization to the large entity it is today without losing its original mission. Thus she predicts that future growth will not be a problem.

Competition: Ms. Hiral believes that there are no direct competitors to SEWA in Gujarat. She spoke fondly of Basix, but mentioned, however: *"In the world, Basix is one of the best organizations but it is only providing microfinance. We are providing microsavings"*. Furthermore, SEWA Bank is reportedly

¹⁵⁴ Official website of SEWA. URL: <http://www.sewa.org>. Retrieved [08082009]

more viable because of the amount of personal service provides to its customers. “Each and every employee has been trained that you are working for a very good mission, and when you step out from the bank you feel so good that I have done something good. Someone’s life is better.” Furthermore, since SEWA is able to provide savings, Ms. Hiral believes that it has a competitive advantage over potential competitors.

SEWA, like any other type of bank, carries out normal banking functions and makes a profit. According to Ms. Hiral their aim is, however, not profit making. They would reportedly be satisfied if they could just breakeven. “*We are basically working for the poor women, the self-employed and have hardly any income to save every day. They come to SEWA to save their daily income and they are illiterate. When they want to withdraw the money they just put their thumbprint*”. Furthermore, the shareholders of organization are also the clients. Thus they pay dividends to their clients who also have a say in how the organization is run. This is very different model from possible conventional banking and possible competitors. SEWA is also different from the government banks in terms of the number of transactions that occur on a typical day. SEWA has up to 800 vouchers transacted per daily in the amounts of only 15-20000 rupees. Thus transaction costs are much higher for SEWA than a national bank. Furthermore, SEWA is not insured by the federal government.

SEWA bank has reached most of Ahmedabad and is reportedly going to open more branches. In addition, they will increase their field workers’ work load trying to reach more and more women. Ms. Hiral is quite optimistic and believes that 15 operational branches will be opened in five years time.

Customers and Services: The customers that SEWA Bank targets according to Ms Shah: “*[the] very poor. It’s maximum of 10 rupees that they save a day. Because of Caste, if she doesn’t have a son, she has to produce one. If she has three daughters, she will attempt for one more, because she wants a son.*” According to Ms. Shah: “*their income is good actually but it is going to be spent because illiterate people do not know how to save.*”

SEWA Bank has encountered a number of problems with explaining the benefits of their services to their clients. Women are reluctant to save because they do not see the immediate benefits. Furthermore, their husbands are often reluctant for their wives to become members of SEWA. As Ms. Hiral stated: “*they don’t understand about the SEWA bank and actually it hurts to their ego because in India each man is...actually in India there is more, in this kind of area it is very much higher...they don’t actually agree that my wife is going to save the money.*” However, Ms. Hiral has seen changes in clients’ lives and says there are thousands of success stories that can be mentioned. SEWA bank has reportedly also had the chance to influence government policy. For example, they had been fighting for a number of years to create a minimum wage for child laborers which eventually they succeeded in doing.

As mentioned above, SEWA bank offers numerous financial and non-financial services. In order for women to receive a loan, they not only have to save for at least six months, they also have to undergo financial literacy training. They are aware that all women need the financial counseling services regarding how to save money, where to save the money, why, where and how one takes a loan. Women are also being educated about interest rates “*Its not that we are explaining about SEWA bank, we’re actually explaining about the importance of financial planning from their day to day life.*” In order to help facilitate the training process, SEWA uses films developed at SEWA Video since the women often are illiterate SEWA also offers business counseling services designed to help entrepreneurial women scale up and develop their business. This however is based on a for-profit model and thus they train their members in exchange for a small fee.

Savings is reportedly the most important financial product that SEWA bank offers. It is actually the first bank and MFI in India to promote savings before loans. Ms. Hiral explained that prior to SEWA, women saved money at home and often their husbands would beat the women and take the money for alcohol. Thus, the women came to Ms. Ms. Elaben Bhatt, the founder and asked if she would be able to organize a means of savings> *“They came to Elaben because it is a universal rule that if you save in your pocket it will be spent and in their case their husbands were illiterate or a drunkard. They beat the women and took the money.”*

SEWA Bank also attempts to reduce women’s dependence on informal credit by taking over loans that have come from informal money lenders. Ms. Hiral explained the predicament her customers are faced with *“Because she is illiterate she cannot check everything. When she repays, the money lender says that you have not paid back from the last moth. In her whole life she cannot come out of that cycle of debt from the money lenders.”*

Field Officers’ Perspective:

View on Work: The field workers’ representative, who followed the researchers into the field, had a significantly different view on her work than Ms. Hiral Shah. The field worker reported that she enjoyed her work at SEWA; however, she was currently searching for a job in the corporate sector. This is reportedly because the social sector does not offer very good wages and fail to provide insurance. In addition, the field worker felt she was not fully utilizing her education at SEWA.

There is often conflict between the field workers and the women and the lenders over the subject of money. When repayments fail the field officer reportedly try to explain why the customer has to pay. If this strategy fails, the women's guarantors, as a last resort would have to pay. The researchers observed an incident where a dispute over loan repayment occurred, as the above photo illustrates,. A woman’s husband was adamant that they had already made their weekly loan installment. The loan officer showed them their financial statements and transactions and after twenty minutes heated discussion the couple agreed to pay back the money.

Women’s Perspective:

Overlapping and Informal Credit: At a field visit with the Urban Areas Field Officer, the authors were able to observe overlapping loan services first hand. During a SEWA’s loan check process, another woman walked through the backdoor at the customer’s house. We were informed later that she was a loan officer from a separate NGO. Surprisingly enough, SEWA’s Urban Areas Field Officer did not appear surprised by the other loan officer presence at her customer’s house.

During our field visit we noticed that there still exists a great degree of informal lending. The first house we visited admitted that they had received short-term loans through family members, however they were smaller and interest free compared to loans from SEWA. At a second house, the woman would most likely borrow from her own family members if lacking in funds. The third house we visited had inherited loans from her deceased father. She was applying for a new loan from SEWA to replace the final loan from one of the local loan sharks. If it would not be for the SEWA Bank’s refinancing scheme, the debt would have been virtually impossible to get out of. The most common way clients have found SEWA seems to be through word of mouth. Several loan applicants that we interviewed had found out about SEWA through relatives or friends.

Other Observations and Contextual Setting

It was apparent to the researchers that the area that we visited was poor compared to rest of Ahmedabad. There was considerable lack of infrastructure, paved roads were nonexistent and houses were a hybrid of shanty and standard structure where animals ran freely. The field worker had a hard time finding one of the loan takers due to the lack of formal addresses. However, the first house we visited had a relatively nice interior. Furthermore, the loan that she was applying for was specifically for house repairs. The accumulated income of the household was 10,000 rupees a month (\$200)

Alcoholism is a huge problem in these areas. One woman noted that around 50% of the men in her village had alcohol problems. This could have a huge impact on the effectiveness of microcredit in both urban and rural centers. This problem would also affect the repayment of loans due to the husband's misappropriation of the funds towards alcohol.

Company Specific Initial Analysis

Although SEWA stresses that they concentrate on income generating loans, they still approve house repair loans. Furthermore, the loan-takers we visited with the field worker, had applied for loans for house repairs. Loans for housing repairs do, however, sometimes benefit the women's business venture when a business is operated out of a house. Ms. Hiral provided an example of a woman who was selling Pani Puri out of her house; however, the food went stale due to moisture in the air created by bad flooring. SEWA provided a loan to fix the floor, and sales immediately went up. SEWA has learned the value of savings through firsthand experience. If women save at home, they will lose their money.

Since the women SEWA serve, are uneducated and mostly illiterate, they are educated through visual and oral aides. SEWA uses videos from SEWA Video whereas Arpana and ANK use songs and dance to educate clients about important issues. From the field workers' perspective, discourse proves to be the most effective method of convincing members of the need to repay loans. This is clearly linked to the importance of creating a good rapport with the women.

Locating a Banksaathi in the same community as the women they serve is meant to create a rapport between workers and their clients. There is also drawbacks e.g favorable lending to members of the community that do not necessarily need the loan but are friends with the Banksaathi. In addition, the low salaries and benefits do not have enough holding power as compared to the corporate sector.

SEWA Bank provides vital refinancing of informal money lender loans to clients who are indebted to informal money lenders who charges exuberant interest rates. SEWA will take over such unfavorable loans, decreasing clients' monthly interest payments and their subservience to the loan sharks. Had SEWA classified these loans as non-productive loans the clients would never have been able to get out of the grasp of poverty.

6.5.2 Mann Deshi Mahila Sahakari Bank (Mann Deshi)

The organizational background was prepared with the help of Mann Deshi's website as well as information provided through interviews. In total, there were two people interviewed at management level which included the CAO and CEO, two people field officers, one senior advisor and two women clients of Mann Deshi.



Mishka with the founder of Mann Deshi, Chetna Sinha

Organizational Background:

The Mann Deshi Mahila Umbrella consists of three organizations: Mann Deshi Mahila Sahakari Bank, Mann Vikas Samajik Sanstha, and Mann Deshi Mahila Bachat Gat Federation. Together, the organizations strives towards empowering women and improving their quality of life by promoting education, health, awareness of property rights, leadership and technology through an array of financial and non-financial services. Their mission is to *“improve the lives of poor and vulnerable women in Maharashtra by providing a unique and innovative combination of financial and non-financial services which will help them achieve financial independence and self-sufficiency.”*¹⁵⁵

Mann Vikas Samajik Sanstha (Mann Vikas) is an NGO that was established in 1994. It is the main BDS provider and offer women’s and girl’s education, student scholarships, HIV and health education camps. It started the Mobile Business School and Business School for Rural Women in 2007 and 2006

¹⁵⁵ Mann Deshi Official website, URL: www.manndeshi.org, Retrieved 09.09.2009

respectively. Together they have provided 9800 women with financial literacy training. Sixty percent of those women have become financially independent and have started their own businesses. The NGO also operate two agricultural collectives which include a dairy and an animal feed program. Furthermore, it has provided interest free loans for two projects in collaboration with Mann Deshi and the Mann Deshi Mahila. The first interest free loan is provided for girls' bicycles to facilitate school attendance. The second loan is provided for vendors' umbrellas to shield them from heatstroke. As to date, they have provided over 2,000 bicycles and 800 umbrellas to the villagers. Today Mann Vikas operates in two states: Maharashtra and Karnataka. The NGO is mainly run through donations and funding provided by the fees charged for the fixed and mobile business schools.

Mann Deshi Mahila Sahakari Bank (Mann Deshi), the first rural cooperative bank to be formed in India, began its operation in 1997 with a startup capital of \$15,000. Today Mann has reached more than 96,000 clients with over \$2.7 million in deposits and \$1.8 in outstanding loans. It has 5 branches in the Satara district in the state of Maharashtra each with 10-20 field workers. Mann Deshi serves poor women (although men are also able to deposit savings) with an average annual income totaling \$490. The majority of clients are classified as the "lower casts" and work as street vendors (22%), goat and sheep herders (20%) and farm and marginal workers (16%). Mann Deshi provides an array of financial services, including individual loans, savings accounts both long and short term, insurance and pension. For individual loans, women are able to lend up to 15,000 rupees without the need of collateral; however, Mann Deshi requires two guarantors as signatories of the loan. Above 15,000 rupees, collateral is needed. This ranges from housing to even women's gold. In 2009, the average loan size was 10,000 rupees and the average lender at Mann Deshi was 36 years old. In addition, the bank requires that its members open savings accounts. Currently Mann Deshi offers savings accounts which include regular savings, term deposits and weekly and monthly deposits. In partnership with TATA AIG, Mann Deshi has provided a Life and Accident Insurance scheme for all their clients and has recently introduced a pension scheme in partnership with UTI Mutual Funds.

Mann Deshi Mahila Bachat Gat Federation has established over 2500 Self Help Groups in Maharashtra. SHGs are connected to the banks and the bank lends money to the SHG. SHG in turn provides loans to the members. It includes over 4500 SHGs with members ranging from 10-20 per group. It is required of all members that they are business oriented, for example vendors and dairy producers. Mann Deshi provides financial literacy training to the SHG's leaders through the help of Mann Vikas.

Management Perspective:

Products and development: Mann Deshi and its umbrella organizations' innovative approach is reportedly due to the analysis of their client's needs. Mann Deshi reportedly realized that the women commonly lacked skills and knowledge to secure a viable vocation and started a business school. Furthermore, due to the women's lack of mobility Mann Deshi provided a mobile teaching facility to educate them. Not all of Mann Deshi's programs have been successful, however. The founder, Ms. Chetna Sinha admitted to making a number of mistakes and miscalculations. Ms. Sinha reportedly copied another bank's savings approach: *"Without asking the women we ordered five thousand piggy banks and we started giving them to the women. When we were giving them to our women and it was very attractive with posters of Mickey Mouse and all that. The women said why are you giving us this? The staff said*

you can save in this and when the Piggy Bank gets filled you can transfer it to your bank account. And they said “whose stupid idea is this’? They said if we have this box in our house our husbands will break them and take away all the hard earned money. That was the first time I realized that it is very important to know exactly what their needs are. What type of banking facilities they require. Whatever mainstream banking sector is doing, they don’t want that. They may want be something else. The process of designing new products, most of our products comes from women.”

Mann Deshi has therefore developed new savings products based on their customers’ needs. Mann Deshi’s had assumed that the women’s greatest financial need occurred around the annual nationwide light festival. Some women, however, approached Ms. Sinha complaining that their current annual savings product had matured at “the wrong time.” They explained that they would instead prefer that their savings product mature in June when their children’s tuitions were due. A new savings product was thus introduced, specifically tailored to the children’s educational fees.

A fourteen year old girl was the innovator of Mann Deshi’s bicycle program after she explained that she needed money to buy a bicycle in order to attend school. The Mann Deshi staff reportedly realized that an effective way of promoting girls’ education would be to provide interest free loans for bicycles. Mann Deshi is, however, not subsidizing their clients without financial gain. Ms. Sinha reportedly understands that these girls will become future clients of the organization.

Mann Deshi’s goal has not only been to provide credit but to invest that credit into enterprises that were sustainable, thus empowering the women to run their enterprise themselves: According to Ms. Sinha: *“Since the beginning Mann Deshi’s approach was not just microcredit, it was empowering women and helping them get additional income but also the control of finances. That is very important. When we design a product we are very clear that are we trying to provide a loan facility that gives a control on finances to women.”* For example, they will invest money into water buffalos, but not dairy, chickens, but not poultry. Their business school also follows the same creed not only providing the women with financial literacy and business training, but also emphasizing confidence building. Furthermore, all women who take loans are required to undergo financial literacy training.

Competitive Environment: Maharashtra and specifically the area of Mhaswad had a large number of informal credit lenders as well as national banks that required balances of over 1000 rupees. Furthermore, there were a large number of cooperative societies that only functioned on paper, never providing loans to farmers and rural dwellers. Because of this environment, Mann Deshi Vikas discovered the need for the women to save at lower minimums. Thus Mann Deshi Mahila Sahakari Bank was started: According to Ms. Sinha: *“[These] cooperative credit societies just do the renewal of loans on paper but actually lending and actual money does not go to the farmers. So when in the 80s I saw here and in the early 90s when I saw whenever something is required...you can see that there are many banks in this town also. But they are only concentrating on those in the mainstream market. But the marginal farmers and wage laborers do not get any financial salaries. Not only microcredit but if they want to save they have to save in a box. Many times in between they lose their money because family members want to take away So that was the reason actually when I, I mean, I m a part of this society...we were staying here and then I realized that there is a need for banking services, not just microcredit but overall banking services..”* Ms. Vanita Shindi, Chief Admminsitrator, notes that the national banks along with other cooperative banks are

Mann Deshi's main competitors, however, the women reportedly prefer Mann Deshi because of its focus on microfinance.

When asked whether Mann Deshi will experience more competition now that they have decided to utilize an NBFC model (see below), Ms. Sinha explained that the majority of the NBFC market competition exists in the southern states of India and there are not that many NBFCs operating in Maharashtra. In comparison to the local cooperatives in Maharashtra, however, Ms. Sinha believes that Mann Deshi will have a competitive advantage over the other MFIs. This is reportedly because they have been forced to cut costs and offer lower interest rates due to the fierce competitive environment they have experienced in their home state: *"we are competing with the cooperatives which are giving a lower rate of interest than other MFIs. Mann Deshi has grown in a culture with low interest loans. So what we are seeing is that our costs are much lower than other NBFCs."*

Ms. Sinha admits that there will be more competition in Karnataka. Mann Deshi may experience situations where people repay loans with new loans from other MFIs. Nevertheless, Chetna does not believe this will be a problem as long as they are able to repay all their loans. She believes that by using individual lending Mann Deshi will be able to ensure that their loans are repaid. She mentions that there is a 60 day period of due diligence. This gives the lender a period of time to accumulate savings as well as to reflect on the purpose of the loan: *"Mann Deshi does it that way only so it gives the loan officers time to know if the person will be able to repay the loan and the client to see if she will be able to repay the loan"*

Ms. Sinha reportedly understands that charging a higher interest rate both has negative and positive affects: *"On one side, you can put a person into a debt trap where they are unable to pay back the loan>"* Ms. Sinha noted, however: *"When you do business you charge a higher rate of interest because you want to become a viable institution also and I DO believe in that. So I don't want to get into the trap of the social mission where it kills your institution."*

Structure: Since Mann Deshi is a cooperative bank, they were required to receive permission for a dual banking license. They first were required to receive a cooperative act license from the state as well as a banking license from the central government. Since they received two licenses, they are now also monitored by the two agencies which include the State Cooperative Act as well as the Banking Regulation Act under the Federal Reserve. Chetna Sinha compared the Indian model to the Russian model where the agricultural sector was monopolized by the cooperative movement. She explained that she had recently been to Europe and there she had seen the stark contrast between India and the EU. Although the bank is monitored by two agencies and is not allowed to move across states without receiving yet another two licenses, Chetna admits that at the time of the bank's formation, she had not seen that the bank would become the entity it is today. *"When we decided to start the bank the only way was to go through the cooperative, there was no other way. You have met the other MFIs but they are NBFCs so we did not want to do it that was because we didn't want to just give credit."*

Ms. Sinha agreed that the women they serve want credit and a chance to save. This facilitates their ability to receive and repay loans. The cooperative bank model appears to be advantageous compared to a NBFC model. It took Mann Deshi, however, three years to procure a license after the Reserve Bank of India investigated the bank clients who were mostly uneducated and poor..

Mann Deshi has often been involved in lobbying and influencing policy within the government. After 9/11, RBI introduced new measures to monitor the procedures of opening bank accounts. This required applicants to show proof of residence, receipts of paid electricity bills and two guarantors. Mann Deshi was the first to lobby against this measure and eventually succeeded in lowering the requirements.

According to Ms. Sinha: *“[The women] are ready for the innovation but the people who are making policies just don’t know. It is very clear that the people don’t want subsidies but they just don’t want people to create obstacles. I have learnt in 12 years that they know much more how to improve their lives.”*

View on HR and Organizational Culture: Ms. Vanita Shindi started working at Mann Deshi as a computer officer. She demonstrates that progression within Mann Deshi is possible since she has progressed to the company’s Chief Administrative Officer. The greatest challenges that Mann Deshi faces is reportedly to keep their administrative costs low due to the high number of transactions compared to a normal bank. Mann Deshi has reportedly been trying to curb its administrative fees through the help of interns. So far they have hosted interns from an array of elite colleges in India and the United states. The interns have assisted Mann Deshi with an array of tasks including impact assessments and creating curriculum for the business school. It is reportedly hard to find quality staff at Mann Deshi and often the women who seek jobs lack appropriate education. Vanita believes that women from the villages serve as the best workers and Mann Deshi has seen a change in the level of education provided to girls with the newer generation. She explains that often they are able to understand the problems of Mann Deshi’s clients more so than a worker would if she or he came from another village. Mann Deshi still however has a small workforce and currently has a staff of only 50 workers.

Ms. Sinha’s views on employing women are in line with Ms. Shindi’s. They both believe that employing people from local villages helps Mann Deshi understand the needs of the local women. Secondly, it reportedly helps them reduce administrative costs due to the lower salaries because employing individuals from outside the state would cost Mann Deshi more money. Ms. Sinha’s original goal was to only employ women due to the lack of priority they receive in the banking sector: *“Not that men cannot achieve that mission, of course not. Even in employment women do not get priority in the sector so when you are starting a women’s institution why not employ women? As far as mission is concerned even men can meet these missions. It was hard in the beginning to employ the women. Now we are not that rigid but we still give women priority.”* Ms. Sinha has reportedly realized after 12 years, however, that there are benefits of employing men as field agents. She clarified that women often trust men with their financial secrets more so than they would women.

When Mann Deshi’s began its operations, men frequently opposed that women handled money and organized themselves. Ms. Sinha believes that responsibility empowers women and that conflict encourages women’s growth, especially when they have a support structure that they can rely on.

There are a number of things, according to Ms. Sinha, to ensure that there is a proper organizational culture at Mann Deshi. She believes that the most effective method of ensuring quality is to have an efficient training and a capacity building program. This is because new workers generally do not have proper education and lack experience within the field. Furthermore, incentive based schemes based on

field staff's targets should focus on the quality of new clients rather than quantity. Ms. Sinha also stresses that it is important to continuously nurture the organizational culture which she admits is difficult.

When asked whether growth will dilute the mission of the organization Ms. Sinha answered “*yes and no*”. She gave an example of the branch managers complaining when she emphasized the importance of providing financial literacy training to the women. She admits that the focus on quality instead of quantity may reduce the scale of Mann Deshi's operations however; she believes it is a choice that one must make. “*We have to make choices. I may not be able to get the scale that other MFIs are doing which is fine for me. It is a matter of what my choice is. Second is that when in the scaling what Mann Deshi would like to take the challenge of keeping the mission and scaling. I do think it is possible. Not the scale maybe...I appreciate the people that have the scale like SKS and all, because they have made a difference in the sector. But it is their choice. Mann Deshi thinks that we feel more answerable to our women. That is our choice.*” According to Ms. Sinha, Mann Deshi's broadly defined mission is to empower the rural communities by providing financial and non financial services that otherwise would not be available to them.

Growth: Mann Deshi has had a number of problems in terms of growth due to legislation. It is reportedly only allowed to grow by 10% of the total number of branches Mann Deshi currently has per year. Mann Deshi has decided to start an NBFC model alongside their banking operations. With help from LGT, a Zurich based bank, they have received an equity infusion of \$500,000 to start NBFC operations in India. The conundrum of having a cooperative banking structure was perfectly explained by Ms. Sinha: “*Mann Deshi has five branches so every year we will get only one. When we have twenty branches we get two. When we have 30 branches we get 3. So that would reduce our speed it will also kill our capacity. Therefore, now what we have decided is that Mann Deshi is going for a Non-banking license.*” Under the new structure, the NBFC will operate independently of the bank and will be able to operate outside of the state of Maharashtra. However, Mann Deshi will provide lending services to the NBFC to ensure proper growth.

Furthermore, Mann Deshi and Ms. Sinha believe in quality over quantity. “*I don't know that the growth, if you see the growth of Mann Deshi, it is not like other MFIs that are faster. One of the reasons is that we try to get, see what the needs of the client are.*” At the same time, Ms. Sinha admits herself that she comes from the school of thought that ‘numbers do reduce cost.’

Mann Deshi is developing new technology through partnerships with HSBC and a Bangalore based IT firm. Ms. Sinha explained that many MFIs believe that technology will enable firms to reduce transaction costs. She believes, however, that this to be somewhat of a fallacy. The main reason for innovative technological services, such as a smart card coupled with wireless card readers, is reportedly that it reduces the workload and enables growth. Furthermore, Ms. Sinha understands that technology can aid in preventing fraud, but she believes that a strong internal monitoring system is even more important: “*Even if you have very good technology in place, if you don't monitor things can go bad. That I am very clear. There has to be a culture of very close proper monitoring when you are scaling up, that culture has to be more vigorous.*” Ms. Sinha's believes that Mann Deshi needs to ease the monitoring system in place for efficient growth. Finally, standardization of products, services and training is reportedly essential.

Funding: Currently Mann Deshi Mahila Sahakari Bank is fully sustainable and is making a profit. However Mann Vikas Samajik Sanstha (Mann Vikas) is working on donor funds. In order to curb the reliance on such funds which often are erratic and unreliable, Mann Vikas has begun to charge fees for their business school services and to search for money through company's CSR projects.

Mann Deshi also reportedly convinces banks that are providing priority sector lending to them that they will not accept any funds unless the bank also agrees to provide grants to their NGO. This, they argue, will also benefit the bank in the long run for two reasons. Firstly, the bank will benefit because the NGO will enable the women to be more reliable regarding repayment through their BDS that they are providing. Secondly, the clients will become the partnered banks own clients once they reach the mainstream sector.

When asked whether becoming an NBFC will raise capital costs, Ms. Sinha explained that they have made it clear to their investors that they will give no more than 5% on their loans. They currently have an investor who has agreed to this price. Ms. Sinha stresses that Mann Deshi is able to effectively negotiate their cost of debt with the banks.

Customers: Mann Deshi only services rural women in their belief that these are the most disenfranchised. Often these women are illiterate and thus Mann Deshi and its umbrella organization often use visual aides to teach them certain subjects such as in their business courses. According to Ms. Shindi, it is not enough for Mann Deshi to provide women credit to start their business. It is reportedly important to scale up their business through BDS services. One of Mann Deshi's customers, named Vanita, reportedly became extremely accomplished and earned a monthly salary of 8,000 rupees and the prime minister of India presented her with a national entrepreneur award. Within five years Mann Deshi reportedly hopes to train 1,000 quality entrepreneurs who will accomplish as much as Vanita with help from their business school and Mann Vikas.

SHG leaders are reportedly elected by the SHG members. The SHGs are charge of the savings and arrange meetings. Meetings only occur when new savings are distributed or if they have clients have not repaid. There are also Mann Deshi representatives who sit in on the meetings but only provide information about the services their bank services. If an individual wants to lend money within a group they have to have saved for at least three months. Their saving interest rate is 7% for one year or 9 1/2% for two years. Mann Deshi also has a separate SHG office. Although Mann Deshi also offers group lending, they focus primarily on individual lending due. This is reportedly so that the clients who are able to reach higher loans don't have to wait for other members of the group.

Field Officer's Perspective:

Competition: According to the public relations officer, there are many other financing companies in the area. However, at the moment there are reportedly none that disperse savings. She believes that savings is the most important product that Mann Deshi offers allowing women to save for the future. The public relations officer has reportedly not had any problems at work. She admitted, however, that she had a difficult time in the beginning when she was unfamiliar with the work required of her. The field officer on the other hand had reportedly encountered direct competition from other banks. Usually this was only a problem if the customer did not receive the loan right away. To lure clients away from other banks Mann

Deshi has reportedly developed a number of products such as gold, housing and commercial finance. The senior advisor explained that the nationalized banks posed the greatest competition due to their targeting more and more disenfranchised members of society.

Selection of lenders: The public relations officer explained that she often knew the people she secured loans for. If she did not know the person, she would ask other people about their reliability. She also explained the significance of building a rapport with the clients. *“Trust is very important...they don’t save because they trust the bank, they save because they trust the agents, so through the agents, trust in the bank is created.”* Since trust is important, the public relations officer explained that it is important to hire people locally.

One of the field officers admitted that there have been cases where women who should not have received a loan, due to lack of savings but they did anyway. The field workers were reportedly from the same village as the women and ‘felt pressured to give them a loan’. *“We know these people, they have no work, but the agent knows her and she is from the same village so we have give her a loan...”* The public relations officer also explained that women are able to take loans in order to repay loans from other MFIs as well as educational fees.

The public relations officer typically works with around 100-150 people per day and is required to do the accounts for each individual. The field officer, however, meets around 70 people per day and adds around 5 new clients per month to the list of customers that he visits. The field officers receive a three percent commission on the amount of money they take in to be deposited at the bank. Collections are done daily, and the public relations officer admits that sometimes clients are unable to pay. If this occurs, however, they generally pay double the amount the next day. According to one of the field officers, if the client does not repay the loan, the possible repercussion could be being sent to jail for six months.

Women’s Perspective:

Recognition: The women’s knowledge about Mann Deshi came primarily through word of mouth. One woman had previously known the public relations officer and had been informed about Mann Deshi through her. The second woman we visited had found out about Mann Deshi through her son who had advised her to take a loan. She was unsure who her two guarantors were and had only met them once at the bank when she was granted the loan. Furthermore, her son was the expeditor of the loan. He had reportedly secured the loan through the underwriting of Ms. Sinha and her daughter in laws name. The son had reportedly received training from Mann Deshi. Prior to taking the loan from Mann Deshi, the woman had thought of going to another bank to secure credit.

Uses: One woman used her loan to buy chairs and a table for her restaurant. Prior to the purchase, she was unable to seat more than two people, however with the loan her customer capacity had increased. The second woman used the loan to buy supplies for her chappati (bread) making machine. She explained that she was unable to save due to her being forced to pay back the loan the loan for her chappati machine. After she was able to buy supplies in larger quantities with the help of the loan from Mann Deshi, she was able to start saving money.

Other Observations and Contextual Setting

It was unfortunate to find out our guide while visiting the villages was a public relations officer as well as a field officer so there was an obvious concern for bias. The field officers seem to play an important role in spreading the Mann Deshi's name and message. The field officers are always from the village where they work. Currently, 21 field officers are working at the Satara branch. They collect savings and spread information about loans, bring people together in groups of three for loans to be dispersed. In the urban settings, the loan paybacks are collected on a daily basis, rather than on a monthly or weekly basis. The field officers use measures like monthly expenditures and monthly income, which are difficult to observe and estimates can vary very much from month to month.

JLG, agents place the women clients in groups of three and the women did not always seem to know each other. Information asymmetry is very apparent; there are no networks, the only means of spreading information in these areas seems to be through word of mouth. The trust in loan officers is very important as people have no way of verifying what companies are doing. Installation of new technology is positive as the smart cards and electronic transfer systems will allow for more transparency. Competition seems to be prevalent in the area, mostly in the form of national banks, providing relatively low interest rates

Company Specific Initial Analysis

The needs of the women clients that Mann Deshi serves guide the designs and implementation of their new measures and products. The communication with clients ensures the effectiveness of such measures which is based on a 'learning by doing' process. Mann Deshi's operations are based on a long-term perspective. For example, Mann Deshi believes that the bicycle program is an investment. If the girls become educated, they will be able to earn more money and utilize Mann Deshi's banking services. Unfortunately this long term perspective did not exist when they began operations. Again, the regulatory environment has become a hindrance for Mann Deshi and thus they are interested in expanding their operations through a NBFC model.

Empowerment of women seems to be the central role of all their initiatives. They are one of the few organizations encountered that have utilized confidence building programs to help women become empowered and independent. Like KBS and Basix, Mann Deshi believes that savings is the most important service to provide to women.

Mann Deshi views competition as a catalyst. It reportedly pushed the cooperative bank to operate more effectively. Mann Deshi has also reached the higher tier of influence where they now have begun to influence local government policy.

Advancement within the microfinance sector appears easy. This is illustrated by Ms. Vanita Shindi's advance from a computer officer to the chief administrative officer in just a few years. Mann Deshi believes that women, particularly those from the same villages as the ones they work in, serve as the best rural credit officers.

Ms. Chetna Sinha is worried that quality will diminish if they are to grow too fast. She is willing to sacrifice quantity to ensure that the mission and effect Mann Deshi has on poverty is not reduced. This quality over quantity dimension can be applied to most microfinance firms. According to Ms. Sinha, technology does not cut transaction costs but is a growth enabler due to workload ease.

Storytelling is an important part of Mann Deshi's culture and the way they convey that culture to the outside world. This can be seen by the repeated example of success stories. Word of mouth in this organization is the main means of expanding Mann Deshi's client base.

PART THREE:

ANALYSIS & CONCLUSIONS

CH 7. Analysis

CH 8. Conclusions

CH 9. Bias and Qualitative Studies

CH 10. Suggestions for Future Research



7. Analysis

This chapter is an analysis of the empirical findings, presented in part two of this thesis. The first and second sub purposes have been fulfilled through interviews and the answers lay in the vast amount of data presented in the empirical chapter including interview transcriptions, field notes, and observations. The main focus of the analysis is to employ the data in answering the research question related to the three sub-purposes. The study's research question is the following: *What is the mission, context of operations and the impact of MFIs?*

By answering the research question we aim to build a contextual framework for microfinance in India, with a focus on mission, emphasis and impact. The analysis also reveals how these aspects relate to one another. In addition, we provide an India-specific analysis regarding the commercialization debate that has been referred to in the background and literature review.

The aim of this study is to generate substantive theory on the subject regarding the context of operations, mission and impact of micro financial promoters in India. Hence, this chapter also analyses certain issues and aspects that were revealed during the course of the study but were not initially part of our focus but contribute to the contextual setting of the study.

7.1 Structure of the Company

In a study by Strom and Mersland (2007), government regulations had little impact on outreach and performance¹⁵⁶. However, throughout the interview process, the researchers were introduced to new forms of legal structures, each uniquely adapted to provide services according to the legal restrictions they face. It became clear to the researchers that the various legal structures influenced not only what services the organizations could provide but also the way they provided microfinance and other services. Below we discuss how the different legal structures influence microfinance and other services being provided. In the next section, the mission and impact are discussed in relation to the services that are provided, and it is argued that government regulations (arguably indirectly) in fact do influence outreach.

7.1.1 Legal Regulations and Impact on Operations

At the onset of the data collection it became evident that legal restrictions played an important part in the organizational day-to-day functioning and the way micro financial services are provided. As indicated by the chosen sampling method, [view 2.2.2 theoretical methodology] as well the legal structures of the various forms of organizations, the restrictions placed on these organizations often determine the services they can provide and consequently also the outreach they can accomplish. It all boils down to the ways and kinds of funding that the organizations are allowed to access and this in turn affects the services they offer.

¹⁵⁶ Mersland, Roy & Strøm, Reidar Øystein, 2007, "Performance and corporate governance in microfinance institutions," *MPRA Paper 3887*, University Library of Munich, Germany.

NGOs:

Non-profit organizations or NGOs as they are called in India are under various legal constraints vis-à-vis other organizations working in development. Being a not-for-profit organization, institutions such as Arpana and Ashta No Kai are by law unable to distribute profits. Due to this, these organizations tend to have difficulty securing funding from mainstream markets, for example through private equity partners, severely limiting their scope of micro financial operations. Ashta No Kai and Arpana have responded to this problem by acting as bank linkages instead of providing direct loans to the women they service. This entails forming groups of women under an SHG format and connecting them directly with a bank. The women are thus able to deposit savings and take on loans if needed. NGO's therefore do not have direct involvement in actual transactions between the two parties. Instead, A.N.K. and Arpana's solution has been to provide additional (non-financial) services. Although these services are not directly linked to microfinance per se, they contribute to the wellbeing and sustainability of the groups. Such initiatives included educational programs on financial management, disease, sanitation, and literacy programs, business development and training services.

The legal framework, under which NGOs operate, is often best suited to the organization's mission. For example, Ms. Modhi had wished to keep her operations small. In addition, she had initially only planned on operating ANK for 10 years (although that plan is not coming to fruition). On the other hand, Arpana operates with a holistic approach to working with the poor. Furthermore, both NGOs strongly believe in sustainability, not necessarily for their organizations, but for the clients that they service. The additional services that they provide are meant to increase this sustainability if the NGOs would cease to exist. Since NGOs are not profit driven, such 'unprofitable' initiatives, which greatly enhance the wellbeing of the SHGs, have been possible. Thus one could say that NGOs specialty, within the area of development, is those additional services they provide which are best provided through the NGO structure.

One of the problems of the NGO model is the employment of people. The NGO model does not allow money to be distributed freely. A constant challenge is to find devoted people who are willing to work for a very low or no pay at all. Due to this problem, ANK has very few employees and Ms. Modhi handles most of the workload herself. This obviously places constraints on what the organization can accomplish. Arpana on the other hand, has proven to be an ideal structure for development work. People gather not for material gains but for spiritual reasons. These employees are reportedly all prepared to give up material gains in order to find spiritual peace. Since not everyone is suited for development work, which often entails long days of intensive work with disproportionately low wages, the employment issue is also relevant for the other organizational structures. This will be discussed further, at a later point in the analysis.

The NGO structure not only allows them to provide 'unprofitable' services, but also affects their growth. Again, due to NGOs being unable to secure mainstream capital and being funded mainly through erratic sources of finance such as grants through CSR projects and private donors, long-term planning and expansion is greatly hampered. Arpana for example, recently had private funding greatly decrease because of their main fundraiser and managing director passing away. The NGOs seem less focused on expansion and more concerned about ensuring that the groups they service have the possibility of fully functioning even if the organization ended operations in that area.

It all comes down to prioritizing what the NGO believes is most important, given their legal restrictions. Since they are not, through their mission or legal structure, allowed to distribute profits, it is not always the most profitable activities that they seek. They are instead, free to allocate their funds wherever they see a need, and this has been seen in the cases of both ANK and Arpana. These, so called, ‘unprofitable’ services were greatly needed, but could not be provided by an organization that is dependent on making profits to pay wages and distribute revenues.

Section 25 Companies:

PSC is the only organization discussed here that is a section 25 company. PSC can be seen as a phase between an NGO and an NBFC. What should be noted here is that all NBFCs included in our sample, started off as NGOs. Due to the problems associated with growth (due to restrictions on attracting funds) all of these NGOs decided to apply for a change in legal structure. In order to obtain NBFC status, the organizations must first go through a section 25 stage. The section 25 stage can be seen as a trial period for an NGO, which will determine if they, in time, will be allotted an NBFC status.

Section 25 companies; operate much like NGOs, except that they have slightly more leverage when it comes to employing people and paying wages. However, the interviews with field workers revealed that their wages are not very competitive and this again emphasizes a funding problem. Section 25 companies are not governed by the RBI, but rather by an internal registrar. Since a section 25 company is an attempt to access more funding through loans, the aim is to be able to expand from the original NGO structure to serve more borrowers. PSC believes in slow growth, although they have high ambitions for future growth. Their current situation, however, seems more like a catch twenty-two where growth is hampered by a slow process for raising of funds. NBFC status is decided by the RBI. If the section 25 company, however, is unable to achieve NBFC status, the growth will be slow and it will be difficult to offer competitive interest rates in the long run. Section 25 companies are, due to these characteristics classified as not-for profit organizations.

NBFCs:

Unlike NGOs and Section 25 Companies, non-banking financial companies are structured in a way so that they are more easily able to secure mainstream finance. NBFCs have a for-profit status and since profits do not have to be driven back into the company and are allowed to be distributed to shareholders, investors are more willing to put their money into an NBFC. This affects the way NBFCs are able to grow, what services they can provide and the breadth of these services.

Like NGOs and Section 25 Companies, NBFCs are unable to collect savings. Although Basix prioritizes money transfers and savings over credit, their main activity is to provide credit on a large scale much like all other NBFCs in this study. Looking at the outreach of these organizations, one must note the breadth of outreach. According to www.mixmarket.org 2008 data, SKS is the largest MFI, followed by SML and thirdly Basix which is eighth in India with a combined customer base of over 8 million active borrowers.¹⁵⁷ This example shows that NBFCs in India, in comparison with NGOs and Section 25 companies, provide the best credit delivery structure in terms of breadth of outreach. In order to provide

¹⁵⁷ Official Mix Market website, URL <http://www.mixmarket.org/mfi/country/India> [cited 20090928]

credit to such a large number of borrowers, NBFCs have been forced to standardize and scale up their operations. Much like SKS' manager Ms. Kashimi's explanation regarding their human resource policy, the NBFCs studied have been forced to follow a factory style growth model. A uniform, countrywide policy has been implemented in terms of training, the opening of new branches and quality of services provided. Furthermore, an NBFC structure allows these organizations to best serve their mission. SKS for example believes that they should focus on the areas that they are best suited to work with. Thus, they have focused purely on credit by providing fast and easy access to credit for millions of customers nationwide.

As previously mentioned, Basix prioritizes savings and other services over pure credit. Much like an NBFC appears to be the best model for providing credit; Basix's organizational structure appears best suited to provide other services. Basix's subsidiaries provide other service aside from credit, such as business, agricultural development, savings, money transfers and insurance. Basix Holding Group started KBS LAB in order to work around regulations governing the collection of savings. It now services three districts in Andhra Pradesh and Karnataka, operating as a local area bank model. Basix has found this to be the best method of providing savings products to their members, albeit only in three districts. Furthermore, the Basix Holding Group has created the Indian Grameen Services, a non-profit NGO reregistered as a trust. Its purpose is to find viable solutions for the poor, e.g. improving rice and soil productivity or to provide money transfers through mobile banking. These services do not technically provide income for Basix. One could argue, however, that they help provide sustainability of subsistence for the disenfranchised and thus help Basix ensure loan repayment in the long run. Basix's operational model is an effective NGO structure, efficiently serving its organizational goals. Although SKS states that their main focus is credit, they have started an NGO wing , SKS ASSIST, which (as a pilot project including around 400 clients) serves the ultra poor and who are currently are unable to utilize credit due to lacking in assets and education.

The main form of funding for NBFCs is soft-loans and internally generated revenue since they have a for-profit status. Banks are more willing to give loans to NBFCs because they are more likely to turn a profit and repay the loans as opposed to NGOs. However, it is interesting that all three NBFC more or less admitted that they are looking into commercial mainstream finance within the next two to three years when they will be launching an IPO. The resulted growth and consequences of this move, is still to be seen.

Cooperative Banks and Local Area Banks:

Cooperative and local area banks are both for-profit organizations. They differ in that LABs are solely governed by the RBI whereas cooperative banks are governed by the RBI as well as the Cooperative Societies Act on a state to state basis. Hence cooperative banks have dual governance. Furthermore, local area banks have a disadvantage in that they are unable to receive priority sector lending due to regulations not distinguishing them as a microfinance bank but as a local area bank. As previously mentioned, this significantly reduces their competitiveness.

Although cooperative banks are governed by different entities, many of the issues facing them and the local area banks are the same. For instance, both LABs and cooperative banks are hindered by the rate at which they are allowed to grow. Cooperative banks are allowed to open new branches, albeit only

representing 10% of all previously existing branches. For example, Mann Deshi is currently unable to grow faster than 1 branch per year until it reaches 20 branches where they then will be able to grow by 2 branches per year. KBS LAB on the other hand, is currently only able to operate within 3 districts. Although the numbers of branches they are able to open are not restricted by current legislation, they are unable to operate outside the geographical area of the three districts.

However, unlike all other legal structures mentioned the co-op banks are able to offer savings to their customers. This is the biggest difference between having a bank status, compared to any other legal status. While interviewing the staff from all levels at the cooperative and local area bank, they noted that savings was their competitive advantage and microfinance reportedly best serves this mission. For example, all banks concerned had mandatory deposits in order to receive loans. Cooperative banks do have a for-profit status; however, their profits are either reinvested or paid out to the members of the cooperative. This entails that growth is internal, as not revenue is paid to external shareholders.

7.2 Inter Company Comparison

Table 1. A Company Overview

	ANK	Arpana	PSC	DISHA	BSFL	SKS	SML	Mann Deshi	SEWA	KBS LAB
Legal Form	NGO	NGO	Section 25	Section 25	NBFC	NBFC	NBFC	COOP	COOP	Local Area Bank
Direct										
Loan Services	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Savings Services	N	N	N	N	N	N	N	Y	Y	Y
Other Financial Services	N	Y	N	N	Y	Y	Y	Y	Y	Y
Non-financial Services	Y	Y	N	N	Y	N	N	Y	Y	Y
Interst Rate Per Annum	9% on bank-loan and 1.5% reducing (monthly) internal	1.5% internal (monthly)	18% flat	18% reducing	18-24% reducing	26% reducing	24%	15% reducing	18% reducing	18-24% reducing
Average Loan Size (INR)	Unknown	Unknown	10,500	Unknown	11,000	4000	6100	10,000	19000	11000
Installment Collection	monthly	monthly	weekly	In process of change to monthly	monthly	weekly	weekly	Monthly in rural but daily in urban	monthly	monthly
Recovery										
Rate	Unknown	Unknown	96%	Unknown	99%	99%	99%	98%	99%	100%
Loan Model	SHG bank-linkage	SHG bank-linkage	JLG	JLG and SHG	Individ., SHG, JLG	JLG	JLG	Indivi., SHG	Individ., SHG, JLG	Individ., SHG, JLG
Area of Operation	Rural	Rural	Rural	Rural & Urban	Rural & Urban	Rural & Urban	Rural & Urban	Rural & Urban	Rural & Urban	Rural & Urban

7.2.1 Loans and Savings

The table above provides a simple comparison between the companies interviewed. What is interesting to note is that only the cooperative banks and the local area bank offer savings deposits due to legal

regulations as explained previously. The NGOs as well as the Section-25s and NBFCs cannot mobilize savings. All organizations directly or indirectly disburse loans, hence classifying as promoters of micro financial services [view 4.2.2.2 Promoters of Financial Services].

Savings allow clients to plan their spending and consumption and also benefit from investments. Savings have the added benefit of providing internally generated inflows of money that can be used for loans to other clients. When interviewing the organizations as well as clients it was apparent that without a savings account, clients would be unable to save (at home). This was due to a number of reasons. Firstly, without formal training on how to save and utilize savings, women and their families often lived from hand to mouth. Secondly, many times women were unable to save due to various family issues; commonly their husbands would take the money. An example was Mann Deshi's failure to foresee this resulting in the piggy bank program's failure. Thirdly, women are unable to save for the same reasons they are unable to access credit. Often these women live in rural areas where access to financial services is impossible without the channels created by the organizations. It would be impractical for the women to forego a day's wage in order to merely deposit a few rupees at the bank. Finally, the fruits of their investments would not pay off in the long run without having a savings program. Profits that are made would be consumed immediately due to the aforementioned reasons. Thus long-term capital self-sustainability would be impossible. It is clear that savings is crucial to the clients livelihoods as well as organizations providing micro financial services.

From an organizations perspective, not being able to offer savings adds to difficulty related with raising funds that all the non-banks face. For the NBFCs, it is an ever growing issue needing access to larger funds. With access to savings, NBFCs would be able to grow their capital base. It would also enable them to rely less on costly debt and prevent them from diluting their shareholder value. This is reportedly why all the NBFCs interviewed had intentions on launching an initial public offering once the markets had settled. The intent was to attract main-stream investors and allow access to larger funds.

7.2.2 Other Financial Services

Aside from credit and savings, many of the organizations interviewed provide a number of other financial services including insurance, pension and money transfers. Due to the legal framework regulating the Indian finance market, these services are easier to provide than savings, and often such additional services serve the purpose of what Ganesh Rengaswamy from Unitus calls, "savings workarounds".

Insurance is likely the most beneficial microfinancial product offered. All the organizations interviewed, Arpana, BSFL, KBS LAB, Mann Deshi, SEWA Bank, SKS, and SML SHARE, provide insurance. The majority of the organizations have partnered through various private and public insurance companies, with the exception of SEWA, who has created its own wing insurance provider (SEWA Vimo). Arrays of insurance programs have been explored from health and life insurance, animal livestock insurance, home insurance, and business insurance. The majority of the organizations interviewed noted that health and life insurance were the most needed services as they provide women and their families a chance to forego payments towards unforeseen health expenses. This confirms Krishna's (2007) findings showing that

60% of the subjects in Rajasthan, 88% in Gujarat and 74% in Andhra Pradesh had become destitute because of unforeseen health expenses¹⁵⁸.

Along with insurance, many of the MFIs interviewed offered pension products. Of the organizations interviewed SML, Basix, SEWA and KBS LAB partnered with various companies, both private and public, to offer pension schemes. Pension products act as a savings workarounds where the clients invest a small amount of money per month or week and then receive a lump sum of cash once the product expires. Furthermore, pension plans ensure that people will not live hand to mouth and will eventually be able retire. This was until recently, quite uncommon for the disenfranchised in India.

Of the organizations interviewed, only SML and Basix offered money transfers. Unfortunately, microfinance institutions in India are unable to provide money transfers and have to act as facilitators through organizations such as western union. As Mr. Anoop Kaul of Basix explained, money transfers are extremely useful for individuals in India who have moved away to search for livelihood elsewhere. Often individuals move to urban areas away from their home and family. Thus, a money transfer provides a safe and easy way to ensure that their capital reaches the required destination.

7.2.3 Non-Financial Services

Microfinance is conventionally comprised of microcredit, insurance and savings. However, the Indian microfinance market is highly different than what literature states. While the majority of institutions offer some form of microcredit, e.g. direct credit or bank-linkages, most of the institutions interviewed could not offer micro-savings due to India's regulatory framework. Furthermore, aside from SEWA, the majority of companies offered micro-insurance as a third party provider where they partnered with a public or private firm. However, many of the Indian MFIs brought the traditional microfinance to another level by providing other side services including business and agricultural development, market linkages, health services, financial literacy training and confidence building classes.

While some of the organizations such as SML, SKS and PSC offered mainly credit, others such as BSFL, Arpana, Mann Deshi, SEWA, A.N.K. and KBS LAB also focus on non-financial services. Basix for example works intensively with farmers to not only provide credit but also to link them to markets where their goods can be sold. Their services have not stopped there, however. They have even become involved in the manufacturing side by for example building a ginning plant for their cotton producers. MFIs often implement side services because it is in fact part of their mission.

Mission: In the literature review, the poverty lending approach and the financial systems approach were introduced [View 3.8.4]. Analyzing these approaches along with the literature on for-profit and not-for profit microfinance organization, it was suggested that differences should be noticeable in the organizations' missions. The researchers stated, "In dealing with mission, we believe that the missions of different types of microfinance organizations vary depending on whether they are for or against commercialization".

¹⁵⁸ Pg 7. Krishna, Anirudh, Subjective assessments, participatory methods of poverty dynamics: The Stages-of-Progress method, Working Paper, pp 1-18, 2007

The empirical data suggests that Indian MFIs missions highly influence how development is viewed and implemented. Mann Deshi states, for example, that the aim is to improve the lives of the disenfranchised. They offer an array of financial and non-financial services in order for their clients' livelihoods to become sustainable. Thus, when they design new products and services, they refer to their original mission of allowing women to get control of their finances. Likewise, BSFL focuses on providing services that promote “*sustainable development*” by providing financial services and technical assistance. Thus by providing side services these MFIs also ensure that their mission is implemented. The attained legal status also relates to the mission, which in turn affects the range of services that can be offered.

Differences between missions of for-profit and not-for-profit organizations are discussed in greater detail in section 7.3.

Sustainability: By entering the market of profit and loss, one driven by demand and supply, microfinance institutions now face an increasing pressure to be sustainable, that is, to be able to sufficiently cover their costs as well as earn a return on the money invested in them.¹⁵⁹ However, the empirical findings suggest that organizations view sustainability in different terms depending on their stance on profit.

Both non-profit organizations (Arpana and ANK) viewed non-financial side services as a necessity in order to sustain the disenfranchised road away from poverty. For example, Arpana provides health education and empowerment programs to the SHGs that they worked with. Ms. Deyal views these as necessary in order for the groups to properly utilize the provided credit, they from SHGs. By providing them with proper education, Ms. Deyal believed that this would create potential managers who eventually could govern the groups to ensure long-term sustainability. The founder of ANK believes that it is unimportant for the organization to survive in the long run; the important thing is that the clients and their groups are sustainable and can stand on their own feet.

Side services not only ensure that the women utilize credit for their own financial self-sustainability but also ensure the organizations' sustainability. By providing financial literacy courses for example, Mann Deshi is ensuring that the women properly utilize the credit provided to them. Furthermore, by providing something as simple as umbrellas through interest free loans, Mann Deshi is guaranteeing that vendors will work, create a profit and be able to pay back the loans from the organization. Thus, Mann Deshi is in essence insuring their loans by increasing the probability that they will be paid back.

The NBFCs however, mention financial aspects to a higher degree when asked about sustainability. This is not a surprise because these organizations are profit-driven, need to pay back loans, employ staff and pay competitive wages.

As Unitus' Ganesh Rengaswamy puts it, traditional microfinance shifted towards ‘*social enterprise ecosystems*’ which comprise an array of financial and non financial services. Therefore, microfinance has moved away from the traditional mainstream thought of (only) finance. Although it involves providing the disenfranchised with credit, savings and insurance, it also entails other services that better the individuals' wellbeing. Thus, the researchers believe that the definition of microfinance should be broadened to embody the idea of a social enterprise ecosystem that not only helps women with their

¹⁵⁹ [Microfinance : evolution, achievements and challenges / edited by Malcolm Harper, London : ITDG ; 2003, p 6](#)

finances, but also their total wellbeing. For example, an individual's empowerment is highly linked with an individual's financial wellbeing although it may not be apparent.

7.2.4 Interest Rates

Looking at the inter-company comparison above, it is interesting to note the interest rates charged to lenders of each organization. Despite the outreach of NBFCs, they charge significantly higher interest rates than banks. Since Arpana and Ashta No Kai act as bank linkages they are not directly involved in charging interest rates, however, one cannot help but notice that the internal interest rate charged by the members is still significantly lower than the non-banking financial company's rates.

One of the original goals of microfinance is to ensure that the disenfranchised would end their reliance on unscrupulous money lenders charging exuberant interest rates. Despite the advent of microfinancial firms, informal money lenders still charge interest rates around 5% per day. This has created much unease amongst law makers in India who have recently focused their attention on these lending firms. Current local government intervention encourages MFI borrowers to repay their loans. However, as SML pointed out, many of the larger MFIs are working to reach areas that have traditionally been inaccessible. Furthermore, in order for them to be financially self-sustainable they are required to charge at least 15% above their financial costs which is in line with recommendations made by Muhammed Yunus. Although the interest rates seem to be high at first glance, one must remember that SML charges only 1% above their total costs.

Comparing the bank interest rates versus non-banking financial companies, one must look at the company's structure and how this affects their total costs. Banks are able to collect savings and savings, banks such as Mann Deshi, SEWA, KBS and LAB are able to build up a cheap capital base which they then are able to lend out at higher rates to their customers. However, one must remember that there are two sides to this coin. KBS LAB is unable to secure priority sector lending at subsidized rates. Hence the makeup of their lending base where only 35% of all money lent comes from loans to KBS from other financial institutions. Furthermore, the banks interviewed operate in smaller areas and have fewer branches than the NBFCs and therefore they do not have the same benefit as NBFCs in terms of economies of scale.

NGOs in India traditionally do not lend money and have instead utilized the SHG bank linkage model such as Arpana and Ashta No Kai. Von Pischke's (1996) argues that NGOs tend to lose money through lending because of subsidized near-zero-interest rate¹⁶⁰. However, the hybrid for-profit NGOs studied in this paper, e.g. DISHA and Planned Social Concern, disproved von Pischke's argument since they are fully sustainable. Not only did these organizations make a return, they also sought to grow their capital base through profits and subsequently lend money to increasingly more people. Robert Cull's et. al (2009) analysis notes that NGO's tend to target the poorer of the poor¹⁶¹. Can Arpana and ANK illustrate this analysis? The majority of these individuals had no livelihood and relied solely on their husbands for

¹⁶⁰ J.D. Von Pischke, "Measuring the trade-off between outreach and sustainability of microfinance lenders", *Journal of International Development*: Vol 8, No. 2, 225-239, (1996)

¹⁶¹ Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, "Microfinance Meets the Market", *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

sustenance before the NGOs began working in these areas. However, many of the other organizations interviewed, beside NGOs did in fact work with the poorer tiers of society such as SKS' poor inclusion program. Mann Deshi's livelihood development school and Basix' many BDS services are other examples. However, we restrain ourselves from further speculation on this issue due to the fact that this analysis is based solely on observation and not on specific measures.

7.2.5 Monthly vs. Weekly Repayments

When comparing MFIs throughout our interview process, we encountered different collection methods. One of the main differences involved the timing of collections of interest and premium payments. PSC, SML SHARE and SKS had policies of weekly collections whereas the other organizations opted for monthly repayments. Clearly each policy has a great deal of impact on the borrowers. Each policy has its own benefits and detriments to the borrower as well as the organization.

PSC argued that weekly payments decreased the risk for the organization as well as the borrower. Having weekly installments ensured that the borrower did not have to pay a larger lump sum at the end of the month. Since many of the borrowers have little or no budgeting experience, having a weekly installment reportedly lowers the default risk of borrowers for the company.

On the other hand, a weekly collection process is costly both for the company and the women involved. Attending weekly meetings takes time from the women's income generating activities. It may result in foregone wages for that particular day. Furthermore, having a weekly repayment may hurt individuals reliant on erratic income such as subsistence farming. Thus allowing individuals more time to collect their returns from investments may benefit the company in the long run. In addition, Also, having field workers visit groups or individuals on a weekly basis, reduces their capacity to service more clients. This in turn creates higher transaction costs due to the diminishing number of women being visited.

7.3 Mission, Implementation and Impact

This section discusses the missions of the various organizations and sheds light on the findings regarding the implementation of this mission. The implementation process is in fact the conditions that are analyzed in order to judge impact. Much of the discussions presented below are summarized in this table. More thorough discussions follow in the text. The literature review discusses the issue of mission in relation to the profitability status (for or not for profit) of organizations.

Dichter argues that NGOs (not for profit) have a socially motivated mission driven by compassion and pleads that NGOs "will be afraid to admit that what they may do best is unsustainable without subsidy"¹⁶². For-profit organizations, however, despite their overall mission, inevitably have an underlying mission of revenue generation. The non-profit organizations interviewed have a board consisting of members running the organization. The for-profit organizations have a board representing founders and owners of the company, government representatives, and various other stakeholders. In all cases, except for KBS LAB, however, management is comprised of founding fathers and mothers. The cooperative banks management included members of the co-op (borrowers and savers) as well as the

¹⁶² Thomas W. Dichter, "Questioning the future of NGOs in microfinance", *Journal of International Development*: Vol 8, No.2, 259-269 (1996)

founders. This is interesting because this entails that none of these organizations has appointed managing directors from outside. Therefore, we see a strong connection between the initial missions envisioned by the founders and the organizational missions as they are stated today. All for profit as well as cooperative organizations in the study have grown from NGOs (having a non-profit status) to become for-profit organizations. The overwhelmingly unanimous explanation given by the organizations for this change is “easier access to funds to reach more people” and not generating revenue.

PSC is in between the two stages, where it is still a not-for-profit organization but has applied for an NBFC status in hopes of being granted a for-profit status allowing them to access more and larger funds.

With the exception of PSC, striving to attain a for-profit status, all other not-for profit organizations seem content with their status and showed no intentions of wanting to change to a profit-status. The reason seems to be, contrary to what Dichter (1996) suggested, that these organizations (despite difficulties accessing funds) acknowledge and value their ability to provide services that would be completely impossible without subsidization. However, it is important to note here that all organizations apart from Arpana and ANK that have been interviewed, primarily deal with microfinance. The additional services that they provide are also focused closely around microfinance. ANK and Arpana, due to their legal structure, as well as their founders’ initial visions, do not primarily deal with microfinance. Microfinance is just one of the many other things that they provide their clients. This could be another reason for their contentedness with a not-for-profit status. Nonetheless, both ANK and Arpana do a marvelous when it comes to empowerment through bank-linkages (which forces clients wanting to lend or save to deal directly with a bank). These two organizations could afford the trial and error method and their clients were without doubt empowered (from a holistic perspective including education, sanitation, and finance). The women themselves attributed much of this empowerment to the help received through these organizations.

Clients from the other organizations were also empowered to various degrees, but did not stress the importance of the organization as much as the clients for the non-profit organizations. Reasons for this could be that ANK and Arpana have worked in the same villages for over ten and twenty years respectively, trying to build up the entire social structure of the villages, and established a repertoire but also significantly impacted the lives of people. The villagers know Armene, Aruna, and Mamta by name and seem to have a personal relationship with them. Clients of the other organizations seemed to view their relationship with the lenders as more of a client-business relationship.

Table 2. Mission, Implementation and Impact

Organisation	Mission	Implementation	Impact
ANK (not for profit)	Initially literacy; now livelihood development with focus on education, sanitation and financial empowerment.	Ms. Armene Modhi does most of the work herself, so her visions are implemented by her and show themselves in her projects	Holistic focus on few villages, depth of outreach
ARPANA (not for profit)	Spiritual and self-service, development through health-care, antenatal care. Holistic approach to development, which ensures they see the needs of	Many in the Arpana family work with management issues as well as in the field, so their spiritual mission is well	Focus on quality and depth, holistic approach in few

	people and provide solutions to those needs	implemented.	villages
DISHA (not for profit)	“To uplift the poor, particularly women, through income generating micro-credit, providing vocational skills for enhancing income and bringing health care facilities to the doorstep in rural areas.”	DISHA focus is to provide <i>cheap</i> loans to women. They have realized that following a Grameen JLG model did not actually produce the desired results and thus have switched to an SHG model which will lower costs	Cannot be established as a field was not visited
PSC (not for profit)	”Want to see a day when everyone is need can get easy access to affordable loans along with the skills and education so that she can help her family out of poverty. We want to see a world without poverty where each and every woman participates to move out of poverty”.	PSC intends to change its current services in order to properly follow its mission, which according to Ravi is not necessarily happening at the moment. They plan on doing so by offering more services including BDS. Furthermore they focus on quality over quantity. The growth is slow, partly due to financial constraints	Focus lies on depth of outreach and slow growth. The small scale operations seem to be working well, although securing employees seems to be an issue
BSFL (for profit)	“BASIX mission is to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner”.	BSFL, the NBFC wing, implements its mission through in-field as well as classroom training. All employees receive Basix caps and shirts. The mission is posted on walls and tables in branch offices as well as head offices.	Focus on quality of outreach and sustainable growth, but also a focus on breadth
SML (for profit)	“Mobilize resources to provide financial resources and support for the poor, especially women, for income generating activities, helping them move out of poverty”.	SML implements its mission by focusing on quality over quantity. They focus on risk mitigation, decreasing costs and to focus on credit. Their main target is BPL clients	Cannot be established as field was not visited
SKS (for profit)	“Eradicate poverty by providing financial services to the poor and by using their channel to provide goods and services that the poor need”	SKS has implemented its mission by focusing on its strengths which are providing microcredit to a large number of people through a fast growth model. They rotate staff and are clearly focusing on expansion	Focus on high growth and inclusion of as many individuals as possible, breadth of outreach
KBS (for profit)	“To be a sustainable local community based institution providing financial services to the underserved, particularly rural poor and women and to arrange provision of technical and support services to the borrowers with the ultimate goal of promoting a large number of sustainable livelihoods in the area.”	Like BSFL, KBS has followed a sustainable development model. They implement this mission by focusing on savings above credit and by providing a number of business and agricultural development services. Due to their LAB status, they cannot operate outside their three districts so inevitably, the focus can only be on depth (if they want to grow) after the area is covered	Focus on quality of outreach and limited growth through savings
SEWA	“SEWA Bank's mission is to reach out to the maximum number of poor women workers engaged	SEWA bank implements its mission by providing a number of side services	A focus on savings

(cooperative)	in the informal sector and provide them suitable financial services for their socioeconomic empowerment and self-development through their own management and ownership.”	that focus on their own self-sufficiency and empowerment.	before credit
Mann Deshi (coopertive)	”We aim to improve the lives of poor and vulnerable women in Maharashtra by providing a unique and innovative combination of financial and non-financial services which will help them achieve financial independence and self-sufficiency.”	Like SEWA bank, Mann Deshi focuses on providing a number of side services along with traditional microfinance. Innovation for new products created through the members of Mann Deshi.	A focus on savings before credit as well as providing tailored products for individuals

7.3.1 Mission and Impact

It is difficult to say if the mission itself is directly related to the impact of an organization but since we see such closeness between the mission and the working of the organization (attributed to the previously mentioned composition of management and original visions) it is logical to see a relationship between the two. In the literature review we mention some problems that can be attributed with agency and board members being affiliated with the company¹⁶³. It is argued by Hartarska (2005) that financial governance is negatively affected if employees make up a portion of the board. In the case of the interviewed institutions, financial governance was not focused upon. However, when it comes to the implementation of mission and the impact that a deeply-rooted mission (observed in employees interviewed at each organization) has on the services being provided, the fact that founders and employees are board members seems to have a very strong positive effect.

The missions of all these organizations (although the for-profit ones are more professionally worded and presented) are “close-to-heart” for the employees of the organizations and this show in the passion they have for the work they do. A very possible reason is that the original visionaries still form a very important part of the organization. At Arpana, although Pujiya Ma no longer is alive, she and her vision were mentioned repeatedly. A branch manager at BSFL talked about the BSFL founder as someone he idealized.

In the table above, it can be seen that all organizations state that they have at least some form of ‘social’ mission. Differences, however, emerge when we viewed the way their missions were implemented. Although table 2 merely provides a brief summary of the implementation, it includes aspects such as the employment, training, and retention of dedicated staff, the services provided, as well as targeting.

In the literature review section, the authors described two major approaches that existed in microfinance. One was the poverty lending approach where the lower tier of society i.e. the poorest of the poor, were able to receive loans at lowered interest rates. This was because the MFI servicing them had received grants or some form of government subsidies. The financial systems approach on the other hand focuses on the economically active poor while meeting the savings demand of the poor, these institutions are financed through commercial credit, savings and for-profit investments of various kinds.

¹⁶³ Hartarska, Valentina, Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States, *World Development* Vol. 33, No. 10, pp. 1627–1643, 2005

Again MFIs in India can be seen to use a mix of both approaches. Arpana for example focuses mainly on the ‘poorest of the poor.’ However, a number of these people were unable to become economically active due to non-existing local craft. A number of women were thus taught how to sew in order to promote their livelihood. Arpana relies only on grants and donations and thus they could be seen as using the strictly poverty lending approach. Under this approach, credit is not concentrated on but instead the focus lay mainly on business development services. SKS falls somewhere in between those two approaches. It mainly utilizes internally generated funds by providing credit (not from savings however). It also relies on partial government subsidies through priority sector lending. It assists the economically active poor by providing credit. In addition, it has begun to focus on the inactive poor, who as previously mentioned have no livelihood, assets and formal occupation.

The distinction between a poverty lending approach or a financial systems approach is not necessarily correct. KBS does not rely on subsidies however they do focus on the poorest of the poor with no formal livelihood skills e.g. the gypsies with no formal addresses. Thus, the traditional outlook that NGOs in India mainly focus on a poverty lending approach whereas for-profit companies, i.e. the NBFC’s, focus on the financial systems approach, is not justifiable. This also relates to the fact that full commercialization of microfinance has actually not yet taken place in India. SKS, BSFL, and SML mentioned wanting to launch initial public offerings to attract mainstream finance, but since this has not yet been done, all organizations in the study are closer to the poverty lending approach than to the financial systems approach.

7.3.2 Social Mission and Financial Mission

It seems that the smaller organizations have a stronger social mission. In addition, although their organizations are less structured, the mission seems to be implemented according to their goals. One of the reasons for this could be that they usually do not have such a large number of staff. Many times the same people who work with management issues are also the ones that go out in the field. The NGOs and Section 25 companies in this analysis seem to classify as truly socially oriented organizations. All of them are dependent on grants, funds, or soft loans due to the fact that they are not allowed to distribute profits (hence they are unable to attract shareholders). Many of these organizations admitted that they have growth related problems, but for ANK the initial plan had always been to phase out after ten years. There have also reportedly been villages that Arpana has exited after they have reached certain levels of empowerment. PSC’s president stated that he wants to focus on slow growth because quality is more important than the quantity of people they reach, hence, there seems to be a focus on depth of outreach. It is also evident that the return they are seeking is primarily a “social return”.

Looking at the larger organizations, the banks and the NBFCs it becomes evident that they must, for their operations to continue, have both a social as well as a financial motive. If they do not raise more capital, they are unable to serve more clients and they do, both in their stated mission as well as their operations have a larger focus on finances. The NBFCs as well as banks have more employees, are more widespread, and are reaching a significantly larger number of clients. Although the focus of their missions also leans more towards a ‘social return’, the ambivalence faced between social and financial returns is evident. If some of these organizations become truly commercialized (through successful IPOs leading to financing

through mainstream capital) and must take into consideration the financial returns that their stockholders demand, the pressure is bound to increase¹⁶⁴.

7.3.3 Impact Assessment

It is virtually impossible to judge the impact each organization has on a village without conducting a longitudinal study. Furthermore, judging the MFIs benefits on the individuals' circumstance cannot be fully judged by contextual observations. It would be necessary to do a comparative study of the well-being those villages that have not had MFI interventions as compared to the village being studied. In addition, it is very hard to compare villages from different regions since each Indian region is significantly different in terms of socioeconomic conditions. For example, women in a particular village may seem highly empowered vis-à-vis another village; however, this may be due to factors that are exclusive to the MFI operating in that area. Religion or caste may also influence how we as researchers viewed a particular village's situation compared to another village in a different region.

Although it is difficult to make a comparative impact assessment, it is possible to imply (from the information obtained, data collected, and situations observed) that the depth of outreach was larger on the parts of the smaller organizations that rely on grants. The larger organizations, with the exception of KBS and BSFL, seem to be focusing most of their resources only on credit, and are doing so on a very wide scale. Hence, for these organizations, breadth of outreach is more significant. BASIX Holding Group seems to be the only ones in the sample (including both KBS and BSFL) that have managed to provide a full scale of services at a wide as well as deep range. The cooperative banks, although working with other issues as well, have not gone as far as BASIX who provide BDS, risk mitigation, and a learning forum called the livelihood school for others working within microfinance.

In the literature review, the authors presented a number of metrics developed by Navajas et al (2009) testing the effectiveness of microfinance institutions such as depth, breadth, cost to users, worth to users, scope, and length¹⁶⁵. Since these are mainly quantitative measures, a qualitative study is not best suited methodology to study the MFI's impact on a particular household or individual. Furthermore, while such measures as breadth and cost to users can be easily measured through data from each organization's respective website, other measures are less tangible such as depth and worth to users. Depth for example could be measured by the MFI customers' annual income level, or by an Indian specific measure such as the number of customers below the poverty line. However, this measure is highly subjective. PSC's Ravi Gupta iterated the issue exquisitely explaining that in a particular village a person may be above the national poverty line, however in that area they are considered to be the poorest of the poor. A quantitative figure would thus exclude those persons who were in need of financial services.

Since this study was not a longitudinal one, the impact assessment is based on the organizations' mission and the implementations of these. Furthermore, the client interviews are seen as a glimpse into their perception about their circumstances. In the case of the NGOs, Arpana and ANK, the women were well aware of the founder as well as the field workers. They had been present in the field for many years and

¹⁶⁴ [Microfinance : evolution, achievements and challenges / edited by Malcolm Harper](#), London : ITDG ; 2003, p 6

¹⁶⁵ S. Navajas, M. Schreiner, R.L. Meyer, C. Gonzalez-Vega & J. Rodriguez-Meza, "Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia", *World Development*, Vol 28, No. 2, pp 333-346, (2000)

had a good repertoire with the women. The clients of the bigger companies however, did not always have the same depth of relationship with the field workers. Most of the marketing is relied on via word of mouth which could be positive. The companies must work on retaining and satisfying clients in order to attract new ones. The most significant change that the clients spoke about was that they had received 'knowledge' through attending the SHG group meetings. This again, concerns rudimentary knowledge on savings and credit possibilities as well as more wide-spread knowledge (again as in the case of the NGOs) regarding health-care, sanitation, the village council. In addition, there is the importance of education (specifically sending girls to school as well as the boys) and empowerment (in terms of women's rights in the home as well as in the community. The educational programs provided by ANK and Arpana, which focused on many other things apart from financial services, seemed to have a large impact. Credit alone, however, does also seem to have an impact, yet only in financial terms. The empowerment comes only through the women's successful use of their loans which enable them to pursue their own interests.

7.4 Other Aspects

Although the research question does not specifically mention other aspects than mission, impact and context, we believe that there are many other facets that make the organizations, included in the study, successful in providing the intended services. It is precisely for this reason that we included the term 'context' in the research question. Although the legal structures and regulations presented earlier form an important part of this context, they are by no means exhaustive in explaining India's micro-finance context. The mission and impact can be seen as start and end points for the analysis. The organizations start with a mission where they state what they want to accomplish and how they wish to do so. The impact, although subjectively judged in this thesis, allows for an analysis of whether the mission has been accomplished. The context includes other factors that hinder or encourages the implementation of that mission. These aspects that were found relating to the mission and the impact are discussed below.

7.4.1 Human Resources

Although all of the companies interviewed had similar methods of poverty alleviation, in regards to the way they regarded, hired and trained the organization's field officers and staff, their methods were tremendously different. Many of the organizations also noted that it was a challenge to find the right kind of employees. In order to implement their mission and to provide the intended services, the people and devices that act between the mission and the clients are questioned. Below we discuss issues relating to the recruitment, training, and retaining of devoted development workers.

Women vs. Men: All the organizations we met with serviced the needs of mainly women. The first reaction of the researchers was that women would be the best employees to deal with women. Our original rationale was that female field workers would be more able to understand the needs of customers they worked for. These women had often been in the same situations as their customers and understood the need for empowerment and the importance of taking their own financial needs into their hands. This is similar to the reasons of some of the organizations, e.g. SEWA and Mann Deshi. Furthermore, a number of organizations explained that it would be difficult for female customers to explain converse on subjects that were private in nature with members of the opposite sex.

However, many of the organizations, and specifically those that are larger, had in fact very few female workers employed in the field e.g. SML. There were several reported rationales behind employing

mainly men. SML stressed that often field officers were forced to travel long distances and this would pose some security risks to the women. This trepidation was shown first hand from one of the field workers at PSC who explained that since she was handling large amounts of cash, there of course could be security risks that could be frightening. Other reasons why women are not being employed to a larger degree than men within the microfinance sector could also be due to macroeconomic issues. Since the microfinance sector is having a human resource deficit at the moment, prioritizing women over men may seem impractical. Although it happens less so today, historically families tended to prioritize male children over female and thus many women today are often uneducated. This problem is further emphasized in rural areas where cultural values place less emphasis on egalitarianism. This view is reflected at Mann Deshi where the management admitted that they had a difficult time finding enough qualified women for the job.

Outsiders vs. Insiders: Another important issue is the question of whether to hire field staff from the same or different areas where they would operate. Again, the researchers initially saw the question as somewhat straightforward. Field executives who come from the same village as the women they were servicing would best understand their needs and cultural values. India is an extremely diverse place in terms of religion, ethnic backgrounds and language, thus our rationale. Many MFIs alike, considered that hiring workers from the same region would overcome these potential obstacles. However, many MFIs, particularly the larger ones such as SKS and SML saw this as a disadvantage. Field executives who come from the same villages as the women often have a close network of friends and relatives that could possibly cloud their judgment. This could happen in a number of ways. Primarily, many people who should objectively not receive the loans may be preferred over other individuals, who are in more need of the loan, due to personal relationships with the field officer. Furthermore, a field officer who originates from the area of his or her clients might form hubris or perceive themselves, to quote Ms. Kashimi from SKS, “as demigods.” The solution thus for many MFIs is to hire field officers from different regions and to move the field staff to different locations. This solves the problems of having personal relationships affect the judgment of field executives. It also ensures that they are not in the same place long enough to get power hungry. Clearly the latter issue does occur which could be seen with Ashta No Kai’s sole field worker.

Training and Education: At first thought, one would assume that the higher the education, the better the field executive. She or he would be able to comprehend more complex mathematics, have better analytical skills, have higher computer literacy and utilize their education to the benefit of the company. However, the researchers have seen cases where hiring individuals with higher levels of education did not serve the corporation in the long run. Such employees may feel that they are not being utilized to their full potential. This would create problems similar to those seen at PSC’s where field worker dissatisfaction was apparent.

However, many of the management that we studied whether working in the field such as SKS’ Branch Manager or in the office, such as SML’s Vice President of Planning, had started off as field workers and had moved up the corporate ladder in a short amount of time. This move, while quite incredible illustrates what Vishal Bharat of Caspian Investors iterated on the quick expedient nature of climbing the corporate ladder in the Indian microfinance market.

From Social Entrepreneurs to Professional Managers: A number of the people the researchers interviewed noted a shift in the microfinance market from social entrepreneurs to professional board members and management. Although this trend was not covered in the literature view, it is apparent that while MFIs continue to grow, it is becoming more important to have professional managers running and operating microfinance institutions. Along with hiring professional managers, microfinance institutions are increasingly being pressured to provide adequate salaries to their managers as explained by Caspian

Investors. This shows, in accordance to the findings of Hartarska (2005)¹⁶⁶, that adequate compensation is needed in order to provide a proper incentive for governance of the organization. The field worker at SEWA for example was adamant that she was not being properly paid, and thus was looking for similar work in the corporate sector even though she enjoyed her work at SEWA. Without proper compensation, microfinance institutions will not be able to attract sufficient human capital in order to make the industry properly efficient and competitive.

Training and Mission: The field workers and executives are the frontline staff and outward face of an MFI. Thus training the workers properly and ensuring that the mission of the organization is brought into the field is extremely important for the success of the organization.

All the organizations interviewed stressed that the best way for the new workers to understand the mission of the organization was to send the workers into the field. The object was to demonstrate to the field workers why the organization existed and who they are meant to service. This applied not only to the frontline staff but the organization's managers of. For example, Unitus' manager explained that the best way to analyze a new company that they wished to finance was to look at how the social entrepreneurs interacted with the women in the field. This learning by doing was often conducted by a shadow process where a new field worker observed the actions of employees in order to learn how to effectively work in the field.

Despite this similarity, many of the organizations trained their staff in a number of different ways. For example, in order to handle the large amount of field staff that they required, SKS had developed a 'factory style' recruitment policy. This was needed because of their incredible growth rate of 1,000 employees, 50 branches and 300,000 new members per month. Arpana on the other hand employed staff mainly from their Ashram. Thus their HR policy was all encompassing and implied spirituality through practice.

While interviewing the field staff of the larger organizations, it was apparent that they had begun working in development not because they necessarily wanted to help the individuals, but because it was considered to be a 'job'. However, it seemed that after they had spent some time working in the field, they understood that their work was more than just a normal occupation and that they had significant influence in helping the disenfranchised. The researchers believe that smaller organizations are more able to concentrate on their training and are able to spend more time training and ensuring that the mission of the organization is implemented in the field.

7.4.2 Targeting

Targeting is an important aspect when comparing how companies implement their mission. If an organization's initial mission entails targeting a specific group the impact assessment must consider this. There is a need for both in-depth and large-scale poverty alleviation measures in a country like India. Although all organizations do not mention specific targeting in their mission, it is noticeable through their work. SML was the only company that specifically stated that they target BPL clients. However, even this can be a subjective measure since monthly or even yearly incomes may be extremely difficult to estimate. Most organizations like BSFL, SKS, and DISHA use basic criteria such as economically active women.

¹⁶⁶ Hartarska, Valentina, Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States, *World Development* Vol. 33, No. 10, pp. 1627–1643, 2005

PSC uses a different model where they choose to target clients considered poor in their community, regardless of real income. In the case of Arpana and ANK the targeting is not an active choice, when they choose to work in a village, they include everyone who is interested. These different approaches to which clients to serve affect the implementation of services and the final impact must be analyzed accordingly. The impact assessment, hence, takes into considerations these aspects.

Mainstreaming Clients: The issue of whether microfinance institutions should mainstream clients or retain them after they have completed the loan cycles is a hotly debated topic in India. Both sides put forward powerful arguments with valid points. PSC for example did not want to let go of clients after they had completed the full loan cycle because many of them had still not escaped the clutches of poverty. Looking at a larger macroeconomic perspective, MFIs that retain clients after they have graduated out of poverty benefit by economies of scale. The more clients they have, the more income they will receive which in turn will enable to MFI to expand and bring the benefits of microfinance to a larger client base.

However, as previously mentioned, one of the original goals of microfinance was to mainstream clients so that they would be able to graduate into the formal sector. The thought behind this was to increase their income level so that they would have access to mainstream financial services, e.g. banks that require 1000 rupee deposits that are often too expensive for poor clients. KBS LAB for example encourages their clients to seek financial services at formal banking institutions after they have completed their third loan cycle amounting to 50,000 rupees.

Although the intentions behind mainstreaming clients are well understood, the same reasons often lie behind the MFI clients' inability to access mainstream financial markets. Women in rural areas, where banks or other formal financial institutions operate, will still be unable to access mainstream financial markets despite their graduation to a higher level of income. Thus they will still rely on the networks provided by microfinance institutions until formal institutions build their own distribution channels. Consequently the issue of phasing out of a certain area cannot be addressed until a formal financial institution has been established. A premature exit would cause detriment to the client and may ensure that the client gains would evaporate.

However, there are times when phasing out of a certain area can be the right option. For example, both Arpana and Ashta No Kai have the ultimate goal of eventually leaving their areas of operations. However, before they leave, they are intending to ensure that the groups they serve will be self-sustainable. The issue of sustainability can only be possible however through a bank linkage SHG model. DISHA for example operates an SHG model; however they do not act as bank facilitators. Therefore, if DISHA were to phase out of their areas of operations, the groups would lose their source of financing.

7.4.3 The Importance of Leadership

Throughout our data collection process, the researchers came across an abundance of microfinance employees who revered the social entrepreneurs behind their organizations. Almost every presentation of the organizational background of each MFI involved a detailed story of how their founder and social entrepreneur had begun working with microfinance development. These stories had manifested themselves in many ways including how the organization was built, what values were instilled in the organizational culture and how the organization would work towards providing microfinance services.

Leadership and Influence on the MFI: When the researchers began interviewing management and the field staff of organizations the interviewees would inevitably begin talking about the founding members and their influence on the organization. Aruna at Arpana spoke fondly of ‘Ma’ who, although she had passed, still greatly influenced the cultural and spiritual values of the NGO. These cultural and spiritual values were represented in the mission of Arpana to explore spirituality through practice which resulted in their participatory model.

Similarly, Basix practice and services were greatly influenced by its founder’s belief on development and microfinance. Anoop Kaul explained that Basix’s founder, Vijay Mahajan, prioritized savings, money transfers and business development services over just credit. Hence the organization grew much differently than other large MFIs where an eclectic organizational model was built to best provide services alongside credit such as KBS LAB. Likewise, SML’s founder is influenced by the Grameen Bank’s founder, Mohammed Yunus, which in turn influences how SML provided microfinance.

The leadership also influenced the way organizations grow as in the ANK’s case. Armene Modi’s trepidation to delegate has caused all the NGO to hit a brick wall in terms of growth and until her own ideology and trust change, growth will come slowly.

The way employees are trained is also significantly influenced by the leader and founder of an organization’s beliefs such as Vikram Akula from SKS. His high growth high breadth model was, according to management, influenced by the Starbucks Business Model.

Ganesh Rengaswamy of Unitus also understood the importance of leadership. When evaluating new companies, he noted that one has to look at the social entrepreneur behind the organization in order to judge how successful an organization would be. It is apparent that the personality of the organization is shaped and guided by the MFI founders.

7.4.4 Information Asymmetry

Information asymmetry plays an enormous role in the microfinance context in India. In the literature review we put forward that one of the problems seen with an increase of competition lays in information asymmetry and the related adverse selection hazards. Adverse selection occurs when information asymmetry exists for either a buyer or a seller and therefore the individuals involved are unable to distinguish between good and bad risks.¹⁶⁷ This can occur for both the MFI and the clients of an MFI. Microfinance institutions operate under considerable pressure to operate efficiently while providing relatively cheap loans to the poor. Often they do not have sufficient information to distinguish between good and bad clients and thus, the risk of default increases. The clients on the other hand, often do not have sufficient financial knowledge to distinguish between MFIs that are offering competitive loans to those that are charging interest rates above the market average.¹⁶⁸

The clients we met with have no access to information other than what they are told. Even if they did have access to information, they often lack the skills (such as reading, writing, and hence critically

¹⁶⁷ Picard, Pierre, "On the design of incentive schemes under moral hazard and adverse selection," *Journal of Public Economics*, Elsevier, vol. 33(3), pages 305-331, 1987.

¹⁶⁸ Mersland, Roy & Strøm, Reidar Øystein, 2007, "Performance and corporate governance in microfinance institutions," *MPRA Paper 3887*, University Library of Munich, Germany.

analyzing what they read) to make use of this information. Hence, below we discuss some of the consequences of operating in such an environment.

Competition: The microfinance market in India is burgeoning. Whatever shape or form all MFIs studied had the same goal of empowering women to escape the clutches of poverty and scrupulous money lenders. Furthermore, many of the managers interviewed explained that the market was still under-penetrated and thus, there should be plenty of room for all the microfinance institutions to operate. Despite all the microfinance institutions having similar goals, fierce competition is eminent.

Lack of Coordination: In every organization studied, there were degrees of competition varying from the unhealthy to the healthy. Although one could argue that competition should benefit the end consumers by driving down interest rates and increasing the efficiency of operations, there are obvious detrimental affects to the lack of cooperation. Many microfinance institutions operated in the same area as others, despite there being countless other areas that had not been covered. In some cases this lack of coordination was extreme as in Planned Social Concern's case where SKS had opened an office across the street from their operations. In other instances this competition was unnecessary. This could be seen in Arpana's case where clients were being enticed to take expedient loans from a local NBFC and thus breaking the trust that bound the SHGs.

Since the market is still considerably under-penetrated, the above examples should not have been occurring. The managers interviewed explained that this unhealthy competition was a direct product of a lack of cooperation between MFIs. The majority called for a forum where covered customers would be made known to other MFIs. This could take the form of a microfinance credit rating agency (RTA). Having such a forum would eliminate overlapping. With a decrease in overlapping, credit risk would be reduced and MFIs would have an easier time conducting village surveys to know where to open new operations. Furthermore, cooperation between MFIs would allow more efficiency in providing credit to the end consumers which would result in more areas being covered in a shorter time span. Other means of cooperation should also be encouraged such as Sachin Mandikar's example of community based microfinance institutions (CBMFIs). This would discourage situations of direct competition between NGOs and NBFCs as in Arpana's case. Instead of an NBFC directly competing with an NGO, the organizations would work alongside each other where they would utilize their organizational strengths to best help the disenfranchised.

Thus there have been cases of clear information asymmetry, however mainly on the end of the MFIs who have no forum where they are able to avoid overlapping. The researchers cannot conclude that there is sufficient evidence to support that information asymmetry exists in terms of borrowers not being aware of other MFIs that were offering more competitive rates. On the contrary, many of the people interviewed exclaimed that if they found other organizations that offered more competitive rates, they would have no qualms switching to another finance provider as shown when interviewing the women at PSC. Furthermore, the researchers were unable to find clear large examples of moral hazard. Although all organizations admitted to there being rogue lenders who had no intention of paying back the loans, the fact that all the organizations interviewed had such high repayment rates shows that moral hazard is virtually non-existent.

The researchers had seen the positive effects of competition however. For example, Mann Deshi noted that the reason why they had such low interest rates was due to healthy competition between other cooperative banks operating in the area. Because of this competition they were forced to keep costs low.

These costs were then in turn passed down to the end users in terms of lowered interest rates which are in line with McIntosh's et al. study on the affects of competition. Furthermore, there were examples of competition that had affected the ability for socially motivated investors to reach certain clients. In PSC's case, the branch manager Satender exclaimed that he had wished to provide a number of business development services however this would mean that they would have to raise interest rates which they were unable to do at the moment because of competition. Thus there were cases where socially motivated investors (PSC and Satender) were unable to provide certain services to clients that were in need because of direct competition with other microfinance promoting institutions.

Informal Money Lenders: In every village where we observed microfinance institutions operations, money lenders still operated alongside formal credit institutions. Informal creditors varied significantly and constituted anything from family members to loan sharks. The existence of informal creditors was surprising to the researchers who assumed that once an MFI entered a certain area, informal credit would cease to exist. However, it became apparent that many of the informal money lenders were lenders of last resort where individuals needed expedient loans for short time credit needs. Because MFIs often have a period of due diligence from anywhere between 3 days (SKS) to 60 days (SEWA), many people cannot afford to wait for a new loan to be passed even foregoing cheaper interest rates for more expedient credit. Another reason for the continued existence of informal credit markets is related to overlapping. Individuals who have taken loans from MFIs are ineligible for new credit until the loan has been repaid. Thus they go behind the MFIs back and lend from informal creditors. Regardless, a number of the MFIs interviewed explained that informal creditors came under stress once a microfinance institution entered into a particular area and thus driving down their often exuberant interest rates.

7.4.5 Developing New products

A microfinance institution is only as good as the products that they offer. The researchers encountered a number of organizations that applied different methods for developing new products and services. Some of the organizations applied a needs based perspective while developing their products and services such Mann Deshi, Arprana and Ashta No Kai. Mann Deshi for example had learned through trial and error to listen to the women they serviced because of prior failures such as the piggy-bank example. By listening to women they had developed products that directly benefited them such as their June savings product and bicycle program. Likewise, Arprana utilized surveys in order to locate the areas which there were deficits, such as health issues. They subsequently developed programs such as the cataract operations to service these needs. A needs based perspective does not always provide results however, Armene for example consulted with the local villagers in what areas she could develop upon. Hearing that public toilets were needed she built a number of facilities to improve sanitation. However, when the researchers visited to villages it was apparent they were not being used.

8. Conclusions

With the unintended but obvious risk of reiterating some of the already mentioned issues, below we present a brief summary of the conclusions reached through the analysis. The discussions above lead us to a pivotal point where it becomes necessary to merge all the aspects and attempt the awesome task of presenting them concurrently. The idea is to provide a short discussion on how all of the above-mentioned aspects build the context of microfinance in India, what the challenges are and how to predict the near

future. It is important to state here, that it is by no means, our ambition to provide an exhaustive contextual analysis. The aim is instead to build an evidence based framework to provide a substantial theoretical groundwork as an onset for contextual studies on microfinance within India.

8.1 A Prognosis

It suffices to say that microfinance in India is heavily legislated and this has led to the emergence of several different models including the SHG-bank linkage, direct loans, savings and credit as well as a diverse kaleidoscope of additional services. However, it is important to note, that this heavy legislature is the result of no distinct microfinance legislature, which is at the moment creating many debates. One of the issues under discussion right now is whether NBFCs should be allowed to mobilize savings as well as disburse loans. Within the various organizational structures that have emerged, organizations seem to be striving for the legal structure that best assists them to achieve their mission and implement their goals regarding the mobilization of microfinancial services. We have seen a wide array of missions that can be placed on a social vs. financial scale. However, we decided to leave the chart open on that issue because there are so many factors that affect the implementation of a mission. Firstly, the mission itself can be questioned, but since we often were very inquisitive about the start-up of the organizations, we believe that we were able to understand how their missions evolved to become what they state they are today. This process allows us to move on to the implementation of the mission, which we believe is influenced by the human resources employed, the leadership skills practiced, the targeting, as well as the access or lack of access to information on competitors, In addition, it is influenced by the clients, the information asymmetry among the clients, and the tailoring of innovative products (and the cost-effective implementation of technology) to best serve the needs of the target market.

8.2 Phasing Out

The only organization that significantly admitted to having a phasing out plan was ANK. The initial ten-year plan did reportedly not work as planned, as Ms. Armene Modhi felt it difficult to pull out when she was receiving additional funding for a library and an additional dairy. The issue of phasing out, nonetheless, is interesting, for microfinance as a concept. The idea is to financially empower those who today are termed as non-bankable, to help them establish a means of generating a continuing source of income and hence, allowing them to save, invest, and eventually become “bankable”. Is it not then, by definition, a task of intervention that, if successful, it would need to have a finish line? It is however, evident, through the results and analysis in this study that merely access to credit is not going to make the ‘unbankable’ ‘bankable’. There is a need for education, empowerment and finances in order to bridge the gap between the poor and non-poor today. The other issue that is extremely pertinent is that of environmental impact; and this is where we need to learn from the ways that the poor live today. Is giving them credit to be able to purchase a vehicle really what is needed to make the distribution of resources more equal? These are questions that this study, unfortunately cannot answer. However, we do believe that we provide enough grounds to justify the need for such studies in the future, and this will be discussed further under the section pertaining to recommendations for further research.

8.3 The Commercialization of Microfinance in India

We believe that this research study is highly pertinent in today's financial situation. This is partly because the world finds itself in one of the worst global financial crises ever experienced. Accessing debt is considerably cheaper than usual and along with a series of initiatives from the Indian government, has allowed the microfinance market to boom in India. This was a much needed boom, and hopefully, the growth can continue in a smooth manner, with the benefits reaching those who need them the most.

Returning the commercialization debate that was mentioned at the onset of this study as well as during the literature review, the sustainability debate in India is very different than that of our literature review. In our literature review we stated that in order for microfinance institutions to become sustainable "*The MFI has thus three main choices: lower costs by increasing the breadth of operations, increase the interest rates and fees to the borrowers or accept subsidies.*" However, most of the MFIs studied aside from banks were unable to mobilize savings. Furthermore, almost all of the organizations relied on subsidies in one form or another. The obvious reliance on subsidies could be seen through the NGOs who could not provide a return to their investors and thus had to receive funding and grants as a means of subsistence. The only section 25 company that we interviewed had received funding through private donors such as Grameen Bank. Furthermore, all the NBFCs interviewed were provided priority sector lending which was a direct subsidy of the Indian government, and hence they were not excluded. Morduch's assumption (under his paper entitled the Microfinance Schism) is that in order to become sustainable, a possible alternative for an MFI would be to mobilize savings was actually demonstrated in the banks' situation. KBS LAB for example was not considered to be working in the microfinance sector, and was assumed to be just an ordinary bank that had an unusual clientele. Thus, their only advantage over other NBFCs, who are able to receive priority sector lending, was the fact that they were able to mobilize savings.

Although some of the organizations mentioned that they want to do an IPO, this will not become reality until another few years, and that is when the consequences of such a move can be studied. A move towards commercial finance may end up putting some of the organizations in India on the same side of the debate as Comportamos in Mexico. However, the strength of the social mission on the one side and the need for mainstream finances in order to expand, on the other side, will determine which way the scale tips. Until then, the organizations witnessed in this study, all retain at least some degree of their social mission, and we have not seen any case where interest rates have skyrocketed only because such rates can be charged.

8.4 Concluding Remarks

In terms of sustainability, NGOs seem to strongly believe in sustainability, not necessarily of their organizations, but of the clients that they service. The side services that they provide are meant to increase this sustainability if it so happened that the NGOs ceased to exist. The larger organization also consider sustainable growth to be important, but more in the terms of keeping their organization sustainable to be able to reach a larger number of clients. Both types of organizations, with a focus on depth as well as breadth are needed; the optimal would be if they could work together, to attempt to eradicate poverty. This because, as mentioned earlier, only finance cannot alleviate the kinds of poverty witnessed in India.

Thus, the researchers believe that the definition of microfinance should be broadened to embody the idea of a social enterprise ecosystem that not only helps the financial side of the women, but the total wellbeing of an individual. Concentrating on merely financial services leaves out other critical areas of

development such as empowerment which although maybe not apparent is highly linked with their financial wellbeing. Furthermore, the researchers find it imperative to look at legal structures and mission when comparing various microfinance promoting organizations. The reason is that these organizations, especially on financial terms, cannot be compared to each other without taking into consideration the legal structures that define their means to finance as well as the providing of certain services such as savings mobilization.

Despite the outreach of NBFCs, they charge significantly higher interest rates than banks. Since Arpana and Ashta No Kai act as bank linkages they are not directly involved in charging interest rates, however, one cannot help but notice that the internal interest rate charged by the members is still significantly lower than the non-banking financial company's rates. The bank-linkages also allow clients to become direct clients at banks, where they can open individual savings accounts and also (once they have stabilized their income) apply for larger or individual loans. This is the advantage that the banks included in the study already provide to their clients. With savings, banks such as Mann Deshi, SEWA and KBS LAB are able to build up a cheap capital base which they then are able to lend out at higher rates to their customers.

KBS does not rely on subsidies however they do focus on the poorest of the poor with no formal livelihood skills e.g. the gypsies with no formal addresses. Thus, the traditional outlook that NGOs focus mainly on the poverty lending approach whereas for-profit companies focus on the financial systems approach cannot be justified in the case of India. BASIX Holding Group seems to be the only ones in the sample (including both KBS and BSFL) that have managed to provide a full scale of services at a wide as well as deep range.

9. Bias and Qualitative Studies

All researchers must deal with biases and all studies demand separate measures depending on what types of bias one is dealing with. The key is to remain critical and aware of instances where bias can seep in and incorporate measures to reduce the impact of this bias on the outcome of the study.

9.1 Culture Related Bias

The Indian culture varies significantly from the Swedish. India is a high context country where time is seen as extremely flexible. People are very helpful and want to serve you in every way possible. With a mentality of wanting to please comes a problem that is worth mentioning. The helpfulness does not leave room for a "no" or "I'm sorry, I do not know" as this would be synonymous with "I cannot help you". In most contexts, such answers would be unacceptable. Thus, often we would notice that when the interviewees did not know the answer they would either try to avoid the question change the subject. In order to combat this issue we sometimes had to rephrase questions and ask them several times when we felt that we were not receiving concrete answers. As researchers, we understand that this could run the risk of forcing a statement out of an individual that was a) false or b) s/he was unwilling to divulge in the first place. If this was apparent, we dropped the questions and decided to ask someone else in the organization instead. However, for those answers which the interviewed subjects were knowledgeable about, yet hesitant to divulge, a degree of prodding was needed.

As researchers, it was highly apparent that there existed a social hierarchy in all context whether in the field or in the office. This can be seen by positions such as boss vs. employee or in a socioeconomic

context such as rich vs. poor or high caste vs. low cast. This created problems in a number of circumstances. For example, when we visited the field, the field officer was our guide and was present at all times. Because of this, the clients might not have felt that they were able to express themselves honestly or express themselves at all. They often felt afraid of divulging something that would be seen as 'bad' in the eyes of the field officer, who after all, had the fate of their lending potential in his/her hands. This was generally difficult and it needed to be repeated many times to the loan officers as well as the women that we were not representatives of the company. Similar situations arose when interviews were conducted with the field officers in their offices. Often, their superior would be in the same room which created obvious strains on the reliability of the answers. In such circumstances we explained to the superior that we preferred interviews to be conducted in a private setting. Most often s/he obliged, but in some circumstances s/he lingered and created an obvious bias in the answers which were noted by us during the collection process. Similarly, being foreigners had a great impact on the actions of those interviewed. For example, after visiting Ashta No Kai's operations in Maharashtra and observing the opening ceremonies of each meeting that involved the Grameen oral contract and a number of songs, Armene Modi explained later that they had gone through such proceedings as a demonstration for us and these rituals were normally avoided

9.2 Language Related Bias

For any researcher conducting an analysis in a foreign country, language barriers often create problems while collecting data. There exist a number of different levels of miscommunication, some minimal and others less so. Firstly, the Indian English accents are considerably different than those of British or American English. This sometimes created problems for us during the interviews. However in the analysis process, direct transcriptions were conducted of the interviews in order to ensure that no meaning was lost while interpreting the data. Secondly the study was conducted in a number of states and regions where different dialects and languages were used. Since direct communication between Maira and the interviewees in Hindi was impossible during such circumstances, translators were used. This in itself created semantic problems that unfortunately could not be avoided; however, we noted such issues when collecting data. Furthermore, the very fact that Mishka was unable to speak Hindi and could either observe or utilize the resource of a translator created a number of situations where only one person was able to be involved in the collection and simultaneous analysis process. However, as researchers we are also able to see the benefit of this situation where one is allowed to observe the social context more freely without the distraction of conversation.

These issues are difficult to deal with, but we felt from the beginning that we must visit the people and places that we are writing about, and feel that it is extremely important to use our observational skills to their fullest. We tried to look at issues such as women empowerment not only through the questions asked to the women but also in terms of how vocal the women were, how often they would mention their husbands or sons in their discussions pertaining to money, and whether or not they covered their heads. Also, the interviews conducted with the various parts are used as an analysis tool for the entire situation rather than hard-cut facts. Another measure that has been taken to minimize bias is the fact that we have tried to interview as many people as possible. The interviews are never structured in exactly the same manner and we have interviewed as many people as we have gotten the opportunity to, in each organization.

The interviews serve as a basic blueprint for opinions on issues and challenges faced within the industry. The combinational as well as comparative analysis of these interviews provides an overview of the existing models of dispersing financial services and provides a collection of the biggest challenges faced today in the microfinance sector in India.

9.3 Quality Control

There are certain pitfalls associated with qualitative research in general and ethnographic methodologies in specific. It is important for the researcher to be vigilant and, although the researcher is the instrument of data collection, try to remain objective to the degree possible. This refers to both the data collection as well as the presentation of data. It is in order not to influence the answers in any way, not to portray misleading information that the researcher must reflect upon the issues of reactivity, reliability and validity. These three concepts are discussed below in more detail and reflecting upon their relevance to the study.

9.3.1 Reactivity

Reactivity is the degree to which the presence of the researcher might influence the behavior of the interviewees because they know that they are being studied, and hence lead them to act in a different way than they would if the researcher were not present¹⁶⁹. In relation to the interviews conducted, the researches tried to reduce the effects of reactivity as much as possible. This was done by trying to get to know the people we interviewed, spending a longer amount of time with them, drinking tea and coffee with them, and at certain instances inviting them to lunch. The idea was to try to create an informal setting where the interviewees feel comfortable and act naturally. The questions were also posed in a way that showed our interest in the individuals' perspectives due to our belief of the importance of hearing their voice and getting their views across.

However, despite the efforts of the researchers, there are certain instances when you cannot control the putting up of a show or certain actions or attitudes that would not arise if the interviewees were not being studied. Due to ethical reasons, however, we chose to disclose, at all instances, the purpose of our research. Certain management representatives did not always feel that they had to authority to reveal certain information as they did not fully understand who we were. This was an issue especially in cases when the meeting was planned to be with someone else (someone we usually had build up a relationship with via phone and email contact) but due to certain reasons were unable to access those persons at the time of the interview. This was the case for SEWA and SKS.

9.3.2 Reliability

Reliability refers to the collection of data that is credible, both internally and externally consistent. Internally consistent data means that the data should be consistent over time and in varying social contexts. Externally consistency is achieved by verifying the data with other sources. Since ethnography often deals with the perspectives of others, researchers often rely on what other people tell them. It is

¹⁶⁹ Neuman, W. L. (2003). *Social research methods: Qualitative and quantitative approaches* (5th ed.) Boston: Allyn and Bacon

therefore also important to assess the credibility of interviews. According to Neuman, reliability depends on the researcher's insight, awareness, questions, and viewing behavior from a critical stand point¹⁷⁰.

The reliability of the study can be related to the fact that, as researchers, we remained critical and tried to rely on observational intuition whenever needed. Also, we believe that the data-collection strategy, involving perspectives from various actors within the field of microfinance, allowed us to validate information internally. There were instances when what management said did not coincide with the field officers' stories and vice versa. In such cases we asked further questions and related the divergences with other interviews in order to put together the pieces of the puzzle. Furthermore, a copy of the study has been promised to many of the organizations interviewed, wherefore it would be in the interest of the researchers to put forward accurate data.

9.3.3 Validity

Validity refers to the accuracy of the collected and analyzed data in relation to the question being studied. Pragmatic validity and transferability are criteria that can be used to evaluate the accuracy of a study, i.e. the relevance of conclusions beyond the study itself¹⁷¹.

The validity of the study is a judgment on how well the collected data relates to the research question. The empirical findings provide a large set of data, all relating to the context of microfinance in India. Within the context, our aim was to identify the mission of organizations as well as their outreach. Finally, this data is used to discuss the sustainability issue with reference to the Indian context. The researchers believe that the context (legal regulations and internal operations, methods of operation, services provided, areas serviced) has been established fairly well with the data at hand. The mission of the various organizations, both by asking them, and observing their operations, has also been well understood. Due to the short time period of the study, however, it was not possible to assess impact on a comparable level. However, a level understanding (related to mission, targeting, and services provided) allowed the researchers to indirectly assess impact in terms of the access (and what this access meant to the people by interviewing clients) that poor people were getting to varying kinds of services.

¹⁷⁰ Neuman, W. L. (2003). *Social research methods: Qualitative and quantitative approaches* (5th ed.) Boston: Allyn and Bacon

¹⁷¹ Neuman, W. L. (2003). *Social research methods: Qualitative and quantitative approaches* (5th ed.) Boston: Allyn and Bacon

10. Suggestions for Future Research

Marketing and Media: Throughout our encounter with various forms of SHGs, NBFCs and various banking institutions it became apparent that word of mouth was the most common used form of marketing and attracting to new clientele. Some microfinance institutions of those interviewed had seen the importance of marketing efforts such as KBS LAB which had intended on increasing its budget the upcoming year. Although this was an affective and inexpensive way of receiving new customers, little research has been done within this realm of marketing and microfinance. Furthermore, through the channels that have been developed by microfinance institutions, further research could show the effectiveness or lack thereof, of using microfinance networks to disseminate information on new products from a corporate view.

Women vs. Men: The majority of organizations that we studied had varying views on whether or not to utilize a female workforce out in the field. As constantly examined throughout this paper, there is a great degree of regionalism in India. In certain areas that are more conservative, it may be harder for women to work in villages where such behavior is frowned upon. On the other hand, there may be areas in which women would be much more accepted and in fact preferred over their male counterparts with sensitive financial information. A study covering these different regional socioeconomic factors in terms of employing male or female field workers would be useful highly interesting.

McIntosh's Metrics: As explained in the analysis section, the researchers were unable to fully study all of McIntosh's six metrics according to each organization. A highly interesting study would be to look at each of the MFI structures and do a quantitative comparison on each organizational structure i.e. Section 25 companies vs. NBFCs. This would give an insightful understanding on how each organization is best able to serve their clientele according to their legal structure.

The Environmental Aspects and Ethics in Microfinance: It is becomes evident from the results and analysis in this study that merely access to credit is not going to help the 'unbankable' become 'bankable' in contemporary terms where they have access to the financial services that the average westerner has. There is a need for education and empowerment as well as finances in order to bridge the gap between the poor and non-poor today. In a continued attempt to reach these individuals, an issue that becomes extremely pertinent is that of environmental impact; and this is where we need to learn from the ways that the poor live today. Is giving them credit to be able to purchase a vehicle (or any other environmental hazard) really what is needed to make the distribution of resources more equal? This is something that could be interesting to look at in future research. Examples from our study show that organizations like Basix are trying to implement an environmentally conscious mindset by providing farmers using biofuels with tradable carbon credits. The question is where do the social, ethical and environmental responsibilities begin and end when dealing with empowerment and poverty alleviation.

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APPENDIX A 1

Table 1

Distribution of Microfinance Institutions by Institutional Type

	% of institutions	% of assets	% of borrowers	% of female borrowers	% of subsidized funds
Bank	10	55	25	6	18
Nongovernmental organization (NGO)	45	21	51	73	61
Nonbank financial institution (NBFI)	30	19	17	16	18
Credit union	10	4	6	4	3
Rural bank	5	1	1	1	0
	100	100	100	100	100
Numbers total	346 institutions	\$25.3 billion	18 million	12 million	\$2.6 billion

Source: *MicroBanking Bulletin* sample, 2002–2004.

Note: The sample includes 346 institutions. Data on assets are available for 276 institutions; on borrowers for 346; on female borrowers for 290; and on subsidized funds for 281.

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Table 2

Profitability of Microfinance Institutions

	Institutions		Active borrowers	
	Number in sample	Percent profitable	Number (millions)	Percent served by profitable institutions
Institution type				
Bank	30	73	4.1	92
Credit union	30	53	0.5	57
Nonbank financial institution	94	60	2.6	75
Nongovernmental organization	148	54	8.9	91
Lending method				
Individual	105	68	7.2	95
Solidarity group	157	55	7.4	85
Village bank	53	43	1.6	67
Total	315	57	16.1	87

Source: *MicroBanking Bulletin* dataset. Profitability is defined by a financial sustainability ratio above 1. Credit unions include credit cooperatives.

Note: The table covers 315 institutions with complete data on profitability.

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¹⁷² The tables were originally published in and has been retrieved from: Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, “Microfinance Meets the Market”, *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

¹⁷³ The tables were originally published in and has been retrieved from: Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, “Microfinance Meets the Market”, *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

APPENDIX A 2

Table 3
**Nongovernmental Organizations versus Nonbank Financial Institutions
 and Banks**

	<i>Nongovernmental organizations</i>		<i>Nonbank financial institutions</i>		<i>Banks</i>	
	<i>For different percentiles for this variable</i>	<i>Median if profitable</i>	<i>For different percentiles for this variable</i>	<i>Median if profitable</i>	<i>For different percentiles for this variable</i>	<i>Median if profitable</i>
1) Portfolio at risk, 30 days (%)						
25th	0.74	0.81	0.91	1.20	0.39*	4.42*
Median	3.54		2.06		2.43*	
75th	7.59		6.91		5.23*	
2) Average loan size as a percentage of income at 20th percentile						
25th	27	60	71	164	110	294
Median	48		160		224	
75th	135		247		510	
3) Active borrowers (thousands)						
25th	3.1	11.1	4.1	9.4	1.9	10.4
Median	7.4		9.9		20.3	
75th	23.0		23.0		60.7	
4) Women as a percentage of all borrowers						
25th	63	86	47	67	23	49
Median	85		66		52	
75th	100		94		58	
5) Operating cost as a percent of loan value						
25th	15	21	13	16	7	11
Median	26		17		12	
75th	38		24		21	
6) Operating cost/active borrower (PPP\$)						
25th	84	157	135	278	118	299
Median	156		234		299	
75th	309		491		515	
7) Real portfolio yield (%)						
25th	15	26	12	20	9	14
Median	25		20		13	
75th	37		26		19	
8) Financial self-sufficiency ratio						
25th	0.78	1.14	0.86	1.16	0.99	1.10
Median	1.03		1.04		1.04	
75th	1.17		1.22		1.15	
9) Return on equity (%)						
25th	-10.5	11.4	-7.9	14.4	1.6	15.1
Median	3.4		3.6		10.0	
75th	13.8		17.8		22.9	

Table 3—continued

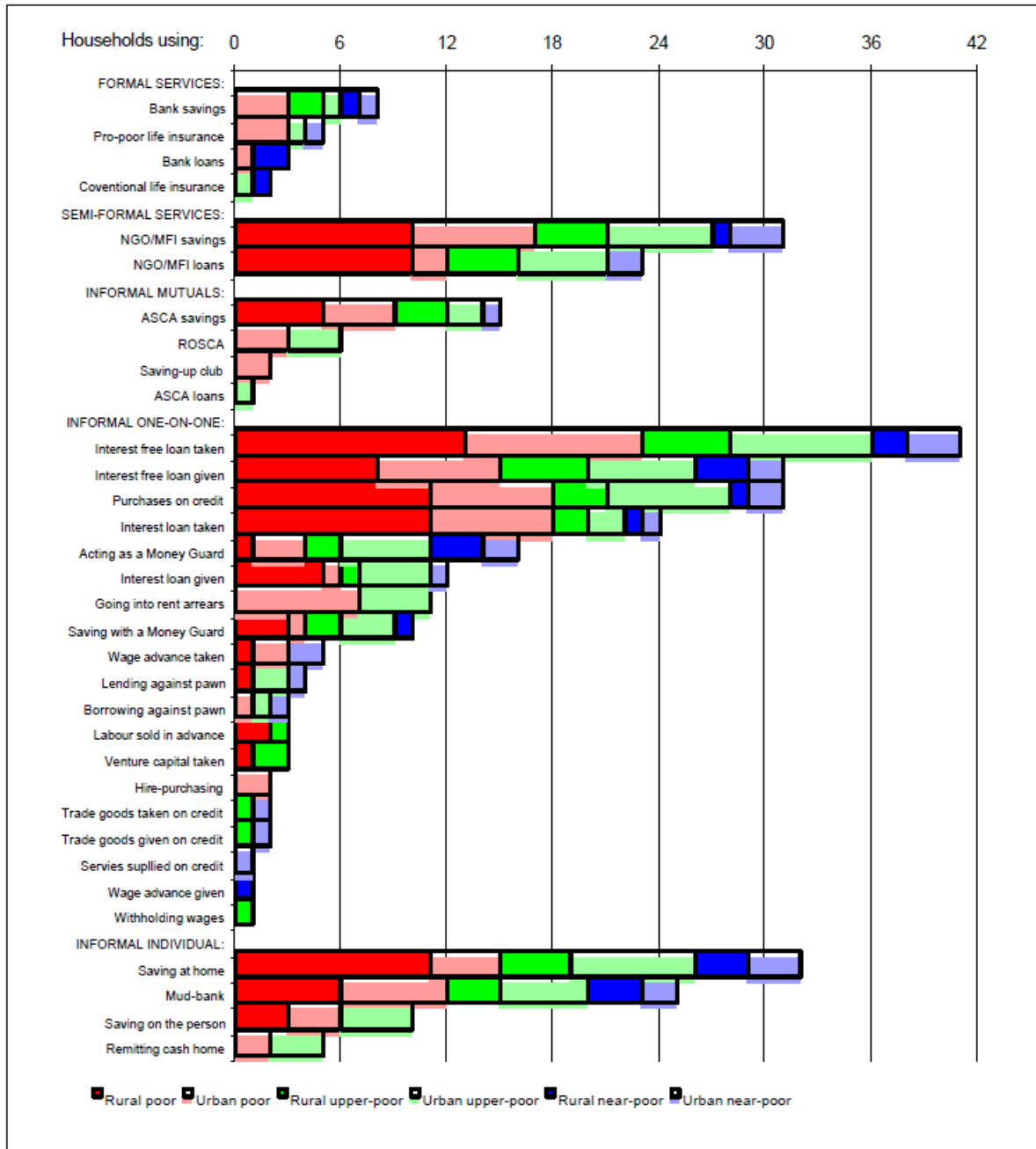
	Nongovernmental organizations		Nonbank financial institutions		Banks	
	For different percentiles for this variable	Median if profitable	For different percentiles for this variable	Median if profitable	For different percentiles for this variable	Median if profitable
10) Return on assets (%)						
25th	-6.0	4.1	-2.7	3.5	-0.1	2.1
Median	0.7		0.9		1.4	
75th	4.7		4.3		3.2	
11) Subsidy/borrower (PPP\$)						
25th	72	199	0	8	0	0
Median	233		32		0	
75th	659		747		136	
12) Noncommercial funding ratio						
25th	0.31	0.53	0.16	0.41	0.00	0.03
Median	0.74		0.46		0.11	
75th	1.00		0.83		0.22	

Note: Return on equity is adjusted net income divided by total equity. Subsidy per borrower numbers are donations from prior years plus donations to subsidize financial services plus an in-kind subsidy adjustment plus an adjustment for subsidies to the cost of funds. The columns give the distributions of each variable on its own; the institution at the 25th percentile for a given variable, for example, is not necessarily the same institution that is at the 25th percentile of another.

* Based on fewer than 10 observations.

¹⁷⁴ The tables were originally published in and has been retrieved from: Robert Cull, Asli Demirguc-Kunt & Jonathan Morduch, "Microfinance Meets the Market", *Journal of Economic Perspectives*, Vol. 23 No 1, Winter 2009, pp 167-192

Appendix B



Appendix C 1

Table 1: Stages of Progress and the Poverty Cut-off¹⁷⁵

Stage	Peru (Cajamarca and Puno)	Western Kenya	Uganda (West and Central)	Andhra Pradesh, India	Gujarat, India	Rajasthan, India
1	Food	Food	Food	Food	Food	Food
2	Clothing	Clothing	Clothing	House repairs	Clothing	Primary education
3	House repairs	House repairs	Primary education	Debt payments	Primary education	Clothing
4	Purchase small animals	Primary education	House repairs	Clothing	Debt payments	Debt payments
5	Primary education	Small animals	-----	-----	House repair/roof	-----
6	Purchase small plot of land	-----	-----	-----	Renting a small tract of land to farm as sharecropper	-----

Table Two: Trends in Poverty Dynamics over 25 Years¹⁷⁶

	Escaped Poverty	Became Poor	Change in Poverty
Rajasthan (35 villages)	11%	8%	3%
Gujarat (36 villages)	9%	6%	3%
Andhra Pradesh (36 villages)	14%	12%	2%
Western Kenya (20 villages)	18%	19%	-1%
Uganda (36 villages)	24%	15%	9%
Peru (20 communities)	17%	8%	9%

Table Three: Principle Reasons for Falling into Poverty (In %)¹⁷⁷

Reasons	Rajasthan, India n=364	Gujarat, India n=189	Western Kenya n=172	Andhra Pradesh, India n=335	Uganda: Central & Western n=202	Peru: Puno & Cajamarca n=252
Poor health and health-related expenses	60	88	74	74	71	67
Marriage/dowry/new household-related expenses	31	68		69	18	29
Funeral-related expenses	34	49	64	28	15	11
High interest private debt	72	52		60		
Drought/ irrigation failure/crop disease	18			44	19	11
Unproductive land/land exhaustion			38		8	

¹⁷⁵ Pg 3. Krishna, Anirudh, Subjective assessments, participatory methods of poverty dynamics: The Stages-of-Progress method, Working Paper, pp 1-18, 2007

¹⁷⁶ Pg 5. Krishna, Anirudh, Subjective assessments, participatory methods of poverty dynamics: The Stages-of-Progress method, Working Paper, pp 1-18, 2007

¹⁷⁷ Pg 6. Krishna, Anirudh, Subjective assessments, participatory methods of poverty dynamics: The Stages-of-Progress method, Working Paper, pp 1-18, 2007

Appendix C 2

Table four – Social Analysis to mark level of poorness¹⁷⁸

Social Groups	Type of Dwelling	Food Security	Land Holdings and Other Resources	Main Livelihood Activities and Coping Mechanisms	Health, Education and Social Status and Access
A) Destitute Household with thatched hut (Ultra-Ultra Poor)	Small thatched hut	Low food security, go hungry when sick or no work, also face seasonal shortage and get food through donation High Dependence for food of those having local Sal forest	No land and no assets Do not have homestead land and not received patta land (ownership rights) Those with access to local forest have high dependence on NTEPs (Non Timber Forest Products)	Sell trees, twigs, branches, leaves, NTEPs, exchange fish for food/paddy, some beg work as laborers, sell advance labor or work in others homes	Some have handicapped or sick family members (a recurring problem) and are socially invisible Isolated from mainstream government programs and NGO activities Children do not attend school and adolescent girls cannot be married due to the lack of funds for dowry etc
AB) Destitute women with no house (Ultra-Ultra poor women)	No land and house and often lives in others houses	Low food security and go hungry when sick or no work. Also face seasonal food shortage and receive food through donations	No Assets and do not have land or a homestead. Have not received patta for their land (ownership rights)	Wage laborer, sell firewood, beg, collect and sell dry leaves, work as midwives or work in other's homes Very few covered in government housing scheme	Sick, aged, incapable of work, elderly women. Some are handicapped or deserted/divorced Health of family members is a recurring problem. Children do not attend school and adolescent girls cannot be married due to lack of funds for dowry.
B) Wage Laborer and Poor Producer with Little/No Farmland (Ultra Poor)	Live in mud houses with thatched roofs	2-3 months food available from farming or seasonal wage labour-seasonal scarcity of food Those having access to local Sal forest collect wild food mainly in off seasons	10 Kathas (720 sq feet) 1 Katha of land with little or no irrigation available Most do not have land rights (patta) Those with access to local forests rely on NTFPs	Daily wage laborer. Produce and sell handicraft items. Coping mechanisms include dependence on NTFPs in food deficit periods and migration. Work in fields, sand quarries and brick fields throughout the year, Take advance payments for labor from farmers and field owners for work to be done on a later date.	Health status is problematic from time to time and are also affected by seasonal diseases. Most children do not attend school. Mostly involved in the mainstream development process. Social status is low and no influence on decision-making at local level.
C) Moderate Poor	Live in mud house with thatched/ tin roof	6-9 months of food available from farming	1-4 Bighas (1 Bigha= 14400 Sq. Feet) of land. Those with access to forest rely on NTFPs	Engaged in wage labor of different types throughout the year. Some leasing of land. Women engage in producing handicrafts and collect fuel from local forests e.g. twigs and leaves.	Can take care of health expenses when necessary though recurring expenses are hard to bear. Mostly send children to primary and secondary schools. Main participants in development processes and are beneficiaries of different schemes, both government and NGOs. Many are members of SHGs and cooperatives.
D) Middle Class & Lower Middle	Mud or Pucca Houses with tin	Have access to food throughout the year	Over 4 Bighas of land	The middle class depends on agriculture by growing vegetables, running shops and	Health Status is good except those with terminal illness or disability. Children attend middle and primary

¹⁷⁸ Pgs 9-12. Mukherjee, Neela, Political Corruption and India's BPL Exercise, Development Tracks RTC (Working Paper), pp 1-16, 2005

Class	roofs		They collect the NTFPs and also buy them from the poor when needed	<p>other multiple activities. Many lease their land and livestock to poor groups while some take land on lease for cultivation. Employ wage laborers and have housework help.</p> <p>The lower middle class cultivate crops, engage in petty trade small production, sell fish and work as daily laborers.</p>	schools and some attend college. Many are politically active and are leaders in local governance and political parties. They participate in local level decision-making and are in a position of influence
E) Well Off	Pucca House	Great food security	Self Reliant and own around 20 or more Bighas and machinery. They purchase NTFPs from poorer groups when required	<p>Grow jute, paddy, wheat. Many are service providers and face less uncertainty and have the ability to make investments to cope with risks. Many lease their land and livestock.</p> <p>Employ wage laborers for farm work and produce different items. Employ household services.</p>	<p>Health Status is good and can undertake medical treatment when required. Children attend good schools and usually attend higher education. Many live in larger cities and towns and return to the villages from time to time.</p> <p>As an elite group, they wield considerable influence in decision making in local governance.</p>

Appendix D1

Weekly Log of Field Study

WEEK 1 June 15th-21st

At arrival in Delhi, we were hosted by the Talwar family, who is involved in development issues. We were introduced to the NGO Arpana, but were unaware of the significance of the NGO to our study.

As the city of disembarkation was Delhi, and the representative from Ashta No Kai happened to be in the city, we were able to meet with her on the 15th of June 2009. The interview was informal, and the interview began as a listening and learning process, allowing the interviewee to share with us her thoughts about the organization. Once the organizational background had been established, we introduced our interest in microfinance and the focus shifter more towards the operations of the NGO and the role of self-help-groups. We also took this opportunity to ask about further contacts within the microfinance field and she was happy to oblige, giving us the name and contact information of Sacchin Mandikar, a consultant on development issues.

The interview was conducted at the Jawaharlal Nehru University, Delhi, where Armene was staying. It took approximately two hours and notes were taken to ease the transcription and analysis of the data. With a 20 minute break in between, the two researchers were able to discuss the analysis process that had already begun and develop a framework for further questions. The interview was completed with an informal luncheon where general development issues were discussed and a very open ambiance was created between the researchers and Armene.

An interview was scheduled for the 17th of June at the Indian Habitat Centre, Delhi, and we met Sacchin Mandikar for an hour. The interview was conducted outdoors, in an informal manner, and with the use of a dictaphone. An overview of microfinance evolution and market in India was given in a detailed lecture form, again with learning and listening approach. Short breaks allowed us as researchers to discuss the progression of the interview and ask pertinent questions that significantly contributed to our knowledge of the microfinance landscape in India. Further contacts were also established, among others, Frances Siniha at EDA, and Radika who currently works for ILO but has previously worked with BASIX, one of the largest and oldest MFIs operating in India.

WEEK 2 June 22nd to 28th

Still unaware of the potential significance of Arpana, a rather low-profile NGO, we were invited to lunch with the executive officer of the organization. Getting more insight into the operations of the organization spurred us to pursue this lead and arrange a trip to Madhuban, in the outskirts of Karnal. In Madhuban we stayed at the Arpana Ashram and met the entire family who also works with development initiatives for the poor including financial, health, and literacy projects. We arrived at Madhuban in the morning on the 25th of June and returned to Delhi in the evening of the 26th.

Contact was established with Radika and but unable to meet with her due to her being out of town and hence, we decided to contact BASIX on our own. We called them and explained our interest in their company after which we were able to book a meeting for next week. We also spent much of this week

trying to establish contact with various organizations working with microfinance. We set up an excel list consisting of organizations we had heard of and organizations we found on mixmarket.org. We picked the largest and maximized the spectrum of our sample by including banks, co-operative banks, NBFCs, and NGOs working with micro finance. The list included all the big names we found and the objective was to try to get at least two companies of every kind to be part of the study. Every day we made phone calls and wrote emails to these countries and updated the status as confirmations for interviews were made.

WEEK 3 June 29th to July 4th

On the 29th of June we met with Mr. Anoop Kaul, National Head of Financial Inclusion for Basix, Delhi. The interview was conducted at the Basix Delhi Headquarters in the boardroom. The interview was informal in nature and there were no communication barriers. Mr. Anoop Kaul was very obliging in offering first an organizational overview which included a PowerPoint presentation and then answering questions from the researchers. After the 90 minute interview, it was agreed that the researchers would visit Basix' urban operations in the outskirts of Delhi, as well as Basix' KBS Bank in Hyderabad.

On the 30th of June, after a considerable hectic and long taxi/subway ride, the researchers arrived in Dilshad Gardens early in the morning. There we met with the branch manager, Anurak Jain who showed us around the office. An interview was conducted over tea for 45 minutes with the branch manager. The branch manager expressed that he would like to utilize Hindi when unable to find the words in English. Approximately $\frac{3}{4}$ of the interview was conducted in English and the rest in Hindi. Again recordings were made during this process. The second interview to be conducted was with one of the three Field Executives of the Dilshad Garden office, Nauman. Unfortunately, the branch manager seemed not to understand when asked if the interview could be in private and listened in when answers were given. Although the presence of the branch manager would seem to skew the answers given, the field executive was very forthcoming and often answered sensitive questions without hesitation. Again the interviewee's answers were both in English and Hindi with about $\frac{3}{4}$ being in English.

Once the interviews at the branch office were completed, the researchers ventured out riding on the motorcycles of two of the field officers, unfortunately with only one helmet provided. After a fifteen minute drive, we arrived in an area that was referred to as the 'slums', but looked surprisingly less so. Maira took the chance to conduct a number of interviews. The first was with a male shopkeeper whose mother had secured a loan for him to open up a pirated videogame and movie shop. The short interview was conducted in the shop and grabbed the attention of the neighborhood. With over 20 onlookers, the interview was cut short. The second person to be interviewed was the mother of the son who had secured the loan from Basix. In order to avoid such large crowds, the interview was conducted in the apartment of the woman where Maira and her sat on floor and discussed various issues for around 20 minutes. The third and final interview to be conducted in the Delhi field was conducted with one of the loan officers on the street. Again a crowd gathered, but fortunately it was noticeably smaller than the first.

The next stop was the daughter organization of Project Concern International, Planned Social Concern which is registered as a section 25 company. We had come in contact with the organization through a microfinance summit that Mishka attended in San Diego where he came in contact with Sean Carpenter. At the head office in Delhi we met with Ravi Gupta who is the Chief Officer of the organization. The interview was conducted in his office and lasted for an hour and a half. The atmosphere of the interview

was pleasant and a great degree of depth was created between the researchers and the Ravi where he was extremely open to explaining the shortcomings of the organization and future problems that it faced. The degree of depth the interview had was further facilitated by Ravi's grasp of English. It was agreed towards the end of the interview that the researchers would visit the field office of PSC in Jaipur the following week.

The rest of the week was spent again contacting organizations in Pune, Hyderabad and Ahmadabad. By the end of the week, we had one confirmation in Ahmadabad to visit SEWA Bank and two in Pune which included Mann Deshi Cooperative Bank and Ashta No Kai.

WEEK 4 July 5th to 12

We arrived in the chaotic and ancient city of Jaipur, the capital of Rajasthan on the 5th of July. The next day we interviewed Satender Pareek who is the branch manager of PSC at one of the two branch offices in central Jaipur. The interview lasted for one hour and encompassed the practical functioning of the organization as well as a question and answer session. Unfortunately, some sentences Satender felt more comfortable saying in Hindi, however, this only encompassed around 1/6th of the interview. On the completion of the interview we had a chance to sit and talk with one of the energetic field officers, who despite the presence of his superior outside the room, was quite forthcoming. Since he felt that he needed to say more, he drove us to our hotel where along the way an intense conversation in Hindi pursued with Maira.

On the 7th with the help of a conspicuous rickshaw driver we visited the field operations of PSC in the outskirts of the branch office. There we met a field officer Meena Kumar who had worked with PSC for three years. We accompanied her to two group meetings where Maira had the chance to ask the women a number of questions. In order to ensure that bias was not an issue, we stressed the fact that we were not from PSC. Meena was also helpful and explained to the women that they should answer truthfully. On completion of the meeting with each group, we followed a number of women who showed us the businesses in which they had invested their loans. These included a bracelet manufacturing shop, a blacksmith shop, a number of small kiosks and a pottery. That night we took a night train where we rushed to the state of Gujarat.

We arrived in the densely populated city of Ahmadabad on the 8th of July via train at 10 am. With our meeting set at 11 am we had no time to spare and after finding the most decrepit unsanitary hotel in India, we rushed to the bustling headquarters of SEWA Bank. Unfortunately, the woman we meant to interview was home sick and had not informed any of her colleagues of our scheduled visit. Thus, we were forced to interview another woman who was in charge of clearing accounts and preparing reports for the board and had previously worked on the welcoming committee at SEWA. Hiral Shah proved to be a resourceful and well knowledgeable individual and the interview was conducted in an informal setting outside the main offices. Unfortunately, there were many distractions which often cut sentences short when Hiral's colleagues interrupted. The interview took approximately 80 minutes and covered the organizational structure of the company and was followed by a question and answer session by the interviewers. Since it was too late in the afternoon to follow the field officers into the field by the time the interview was complete, we arrived at SEWA Headquarters the next day and met with Mrunalini Machhar who spoke Gujarati, Hindi and English and offered her services as a translator. From SEWA headquarters, the two

researchers, translator and field officer (Paragi Hitenshah) ventured into the field in the outskirts of Ahmadabad city. There we visited with four families who all had applied for loans for house-repair at SEWA Bank and were awaiting approval by the field officer. One of the families refused to make a payment for the previous loan, and after a considerable discussion finally agreed that they would pay the next arrival of the field officer. Three interviews were conducted in three different family households. Each interview approximately took 20 minutes. After each interview we were allowed to observe the day-to-day work of the field officer.

We arrived in Pune on the 11th of July at 9:00 a.m. in stead of 7:00 a.m. which forced us to re-schedule our appointment with Mann Deshi from the 11th of July to the 15th. The co-operative headquarters are situated in a valley about 300 km outside Pune and the drive takes four hours. On this we decided to contact Armene, our other contact running operating in the Pune area. She met with us for coffee and we arranged a trip to the field for Monday 13th of July. The rest of the Saturday and Sunday were mostly allocated for transcribing.

WEEK 5 July 13th to 19th

On the 13th of July we visited two of the villages by Ranjangaon where Ashta No Kai operates. We met with Rautabai, who is a field worker and supervisor and comes from the town herself. She introduced us to self help groups in both villages and showed us around. The 14th was spent transcribing and also moving. Armene put us in contact with a very nice family who agreed to host us for a couple of nights so we shifted to the Kotbagi family in Aundh, the other end of Pune.

On the 15th we got to visit Mann Deshi's head office in Mhaswad and interview the founder, Chetna Gala Sinha, the chief administrative officer, Vanita Shindhi, and also some interns who were working on various projects over the summer. Vanita Shindhi provided an overview of the organization while Chetna was able to give some insights on why the organization was started in the first place. Both interviews were done in the lounge with minimal distractions and the final interview with the interns was highly informal and also was conducted in the lounge. On the 16th we visited the field operations of Mann Deshi. The field visit was made in Satara due to geographical issues (it is the closest to Pune and allows more time to be spent in the field than traveling in the car) which is the semi-urban branch of Mann Desi's five banks. We met with a field officer who we later found out to be a public relations officer, Ulka Chavan, women who had taken loans from the bank, the senior advisor and also the public relations officer. At the time of the interview with Ulka it seemed that a great deal of depth had been reached, however once we realized that she was in fact a public relations officer, we changed our stance. Furthermore, due to the public relations officer choosing whom we were to meet, the interviews were not as promising as we would have hoped.

The evening of the 16th was spent transcribing and working on the practical method as well as background of thesis. More information was needed to be found regarding the government initiatives in development during the past few years, and focus was laid on this. Another friend and benefactor of Armene Modhi from Rotary International who ran an NGO-MFI called DISHA agreed to meet us later in the afternoon. On arrival we were greeted warmly and conducted a lengthy interview with three high level management at the Pune Rotary Club: Mr. Shah and Jain and another unknown gentleman. That evening, we had a chance encounter with an individual who, Mr. Vikram, who had many contacts with an array of people

working in the field of microfinance. After the meeting he contacted a number of his ex-colleagues in Hyderabad and wished us farewell.

The 17th of July involved data transcription, and set-up of the data in the thesis was focused upon. In the evening, we departed on a train towards Hyderabad. Arrival in Hyderabad was at 5:55 on the 18th of July and after finding a residence, contact was re-established with the organizations to be interviewed in Hyderabad. Dates and times were fixed and people were informed that we are at site.

WEEK 6 July 20th to 26th

The sixth week began by answering back a number of emails written by the prior colleagues of Vikram. One individual, Vishal Bharat, worked at a private equity firm called Caspian Advisors which invested solely in microfinance institutions and thus had some a great degree of knowledge. A meeting was set on Wednesday the 22nd where we discussed the problems and potentials of the microfinance industry in India over breakfast. After our meal, we followed Vishal to Caspian where we had the chance to meet the Chief Executive Officer and founder who surprisingly had previously been the CEO of Basix. An informal interview in the conference room commenced where again we listened to an insightful overview of the microfinance market in India, investor expectations and evaluations as well as his own history within the industry.

On the 23rd of July, we were able to secure a short yet insightful interview with another private equity provider, Unitus. Unitus has invested quite substantially in start-up MFIs and was one of the main equity providers to SKS. The interview was done on our mobile telephone using the speaker-phone function and the full interview was recorder with the use of our Dictaphone. Initially we had troubles with communication due to the undependable Indian telecommunications but eventually we were able to understand one another.

The next day Mishka went to the field to observe SKS' operations alone due to Maira having to spend the night at the hospital because of a short run-in with the 'Delhi Belly'. At 6:30 Mishka met with Suma Prateysha who works as within communications and PR and drove to Ghatkesar which is an hour and a half outside of Hyderabad. From the get-go it was apparent that this was solely a PR trip where a pre-planned schedule had been written and there was no discretion on the researchers part to chose whom to speak with and where. Furthermore, a certain monetary sum was required of the researcher in order to view the operations. Mishka attended one meeting consisting of 20+ women who, Suma, one field officer, one branch manager and one unit manager. Once the meeting was observed, loans were collected and disbursed the researcher was able to do a short Q & A with the women. Questions were translated from English to Tengalu and visa-versa for answers through the help of Suma. Unfortunately this allowed for short questions and answers, hence there was not that much depth. After the group meeting Mishka was able to visit the branch office where he was able to briefly speak with the Unit manager and the branch manager. Again, some translation was required; however, the branch manager was able to speak some English. After a drive back to SKS' headquarters, Mishka was set to meet the Vice President of communications, however due to some booking issues he was unable to attend the meeting. Thus a semi-formal interview was conducted with another member of communications, Ms. Kashmi who went through a power point presentation of SKS and answered questions in the Vice President's office.

The following day both Mishka and Maira met with the Vice President of Planning, S.B. Sadanand and his subordinate, Ramalingeswar Rao of Share Microfin Limited (SML). After a short introduction of the purpose of our project, we were able to go through a power point presentation of SML. Throughout the presentation we were allowed to ask numerous questions and a great deal of depth was created. Afterwards, it was agreed upon that we would be able to visit the field operations of SML on a later date.

WEEK 7 July 27th to August 2nd

On the 28th of July we were able to visit the operations of KBS LAB, a subsidiary of Basix and the only Bank MFI on the entire subcontinent. Initially we believed that the interview would be conducted in the prior formats however we soon learned that this was a workshop set up for a number of MFIs looking towards initiating a bank model. In total there were 16 people from Bangladesh, Nepal, Viet Nam, The Philippines, Australia, India and Singapore. The visit was organized in part by the Basix Livelihood School and a number of consultants for microfinance. Once we arrived in the village we were able to listen to a presentation by the managing director, Manmath Dalai who also took on questions from us as well as the members present. The questions varied and provided interesting insights into the expectations and trepidations of MFIs operating in Asia. After a tour around the office we visited an outlying village where we met with a number of local farmers and dairy producers who answered our questions and showed us the dairy initiative that was funded through loans of KBS LAB. Overall, the depth and breadth of the topics covered were invaluable and the information received was not only helpful for the collection of data from KBS LAB's but also in terms of the overall MFI market.

WEEK 8 August 3rd to 9th

During the last week in India, our work consisted mostly of transcribing and an initial phase of coding and analysis. After all the transcriptions were done, we divided up the work between the researchers and began extrapolating information to present in the actual paper.

Appendix D 2

Inferred Guiding Concepts and Relating Concepts

1. MFIs make an impact on peoples lives. (Brau & Woller 2004)

- a. How are they making a difference from the management's perspective?
- b. How are they making a difference from the loan officers' perspective?
- c. How are they making a difference from the borrowers' perspectives?
 - i. How do they see the MFI?
 1. Loan officers?
 2. Entire organization?
 3. Management?
 - ii. Is it making a significant impact on their lives? Positive or negative?
 1. What percentage of their total financial transactions (lending, borrowing, savings, insurance etc.) can be attributed to the MFIs? Informal? Formal? Other MFIs?

2. If MFIs are profitable and sustainable, they make a bigger on peoples lives. (Morduch 2000)

- a. How much of your total capital is provided through subsidies?
- b. How people do you reach out to?
- c. Size of average loan?
- d. What does the cost structure look like? (Transaction costs, Cost of capital, Management and Operative costs, Regulatory Costs, Other)
- e. How are they making a difference from the management's perspective?
- f. How are they making a difference from the loan officers' perspective?
- g. How are they making a difference from the borrowers' perspectives?
 - i. How do they see the MFI?
 1. Loan officers?
 2. Entire organization?
 3. Management?

- ii. Is it making a significant impact on their lives? Positive or negative?
 - 1. What was their situation before they met the MFIs and what is it like today?
 - 2. Where on the poverty scale are they from their perspective in comparison to their social surroundings?
- h. What percentage of their total financial transactions (lending, borrowing, savings, insurance etc.) can be attributed to the MFIs? Informal? Formal? Other MFIs?

3. Sustainable MFIs have higher interest rates (Morduch 2000)

- a. How do you set your interest rates (which factors play a role)
- b. What is your average interest rate
- c. Do you target specific clients (which clients receive/seek your services)

4. MFIs missions will vary from NGOs to sustainable MFIs (Dichter 1996)

- a. Do loan officers have the same mission as management?
- b. How do the management and the loan officers communicate?
- c. How is the mission communicated within the organization?
- d. How do they ensure that the mission is followed?
- e. How people perceive the mission?
- f. Has the mission been communicated to the people?

Appendix E 1

The following tables provide an overview of all the interviews that were conducted in this study. The tables summarize the place and time of interview and give a brief description of the setting and access. The interviewees have been divided into categories according to whether they represent management, field workers, and clients or are independent of the organization. First we present the ten organizations and after that the three independent interviews that related to the findings and analysis relating to the contextual setting.

The categorization is as follows:

A=Management

B= Field Workers

C= Clients

I= Independent (Not directly associated with organization but holding significant relevant knowledge)

ORGANIZATION 1: ARPANA

FORM: NGO

LOCATION: MADHUBAN, HARYANA

BRIEF DESCRIPTION: The interviews conducted with Arpana were in various settings. As we stayed at the Ashram in Madhuban, which also in the premises for the offices, some of the interviews were conducted there. Other interviews were conducted out in the field, in the various villages around Madhuban. Although we visited about five villages, interviews were conducted in three, Araypura, Sadarpur and Darar as these were the ones where SHG meeting were witnessed. The table below provides a summary of all the interviews conducted within this organization.

Post	Date	Time/ Length	Place	Name	Description	Access
(A)Chief Executive Director	22.06.2009	13:57/ 30m	Arpana Delhi Headquarters	Deepak Dayal	Introduction to organization , historical perspective, small amount focused on microfinance-entrance into organization	Semi informal deep access. Easy to talk to. Good English. Sincere.
(A,B)Management/ Field worker	25.06.2009	10:42/ 11m14s	Araypura	Aruna Dayal	Background to Arpana and the SHGs, how they	Semi-formal, focused, deep access. Good

					function etc	English.
(C) SHG women	25.06.2009	11:13/ 28m24s	Araypura		Introduction by Aruna followed by a discussion with the women of the SHG	Group setting, leaders voices came forth. Individual opinions not captured. Hindi Only
(B) Accountants	25.06.2009	11:37/ 13m46s	Araypura		Aruna introduces us to accountants and we ask about record keeping, mission etc. Mostly practical operations discussed	Good access, very brief interview. Poor English. Some Hindi.
(B) Health Worker/Trainer	25.06.2009	11:52/ 14m24s	Araypura	Harsha	SHG trainer gives her perspectives on the groups progression	Medium Access-not knowledgeable about certain questions. Only Hindi.
(C) Representative of women's federation	25.06.2009	12:30/ 07m38s	Sadarpur		Woman talks about groups and loans taken by them	Interruptions made, no English, hard to understand due to Hindi dialect.
(B) Field Worker	25.06.2009	12:41/ 03m13s	Sadarpur	Kishan	Kishan talks about what he works with and what he thinks about the SHGs	Good Access. Hindi Only.
(C) SHG Women	25.06.2009	1:06/ 6m55s	Sadarpur		Ask women about changes, compare before and after, what men think etc	Tried talking to women individually but group dynamics overplayed the efforts of this. Hindi only.
(A) Management/ Director Resources	26.06.2009		Madhuban	Anne Robinson	In open office. Talked about organizational structure, funding, challenges etc	Good access. Open, informal atmosphere. Excellent English
(B) Field Worker	26.06.2009		Darar	Mamta Rehal	Interview in the car. SHGs, vocational training, insurance services etc	Ok access. Less knowledgeable in areas of question. Car caused interruptions.

						Very repetitive answers.
(C) SHG Women	26.06.2009		Darar		Women talk about what they have done with their loans and respond to our questions about changes	Information saturation reached and no new information found in interview. Very chaotic situation. Less organization in group.
(A,B) Management/ Field Worker	26.06.2009		Madhuban	Aruna Dayal	Background of Arpana, the spiritual mission and how it has guided the family	Evening tea, informal discussion, very cozy atmosphere, very articulate

ORGANIZATION 2: BASIX

FORM: NBFC, loaning

LOCATION: SHAHADARA, DELHI

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
(A) National Head- Financial Inclusion	29.06.2009		Basix Head Office- Delhi	Anoop Kaul	Powerpoint presentation of company, followed management perspective done in the Basix conference room.	Professional atmosphere. Management talk, some depth covered. Good English Skills
(A, B) Branch Manager- Urban Operations	30.06.2009	10:43/ 30m56s	Basix Urban Branch- Shahadara, Delhi	Anurak Jain	Description of operations and his background and interest in the field.	Attempt of professional atmosphere. Lack of private office. Easy to talk to, but seemed nervous. Medium English, minimal use of

						Hindi in certain instances.
(B) Field Executive- Urban Operations	30.06.2009	11:12/27m40s	Basix Urban Branch- Shahadara, Delhi	Albert	Description of background,	Semi-professional, more articulate than superior. Medium-good English Skills. Minimum Hindi. Questionable access due to branch manager being present.
(C) Two Shop Owners- Shahadara slums	30.06.2009	12:05/10m23s	Pirated DVD/game shop, Shahadara slums		Interview conducted in shops physical location near the branch office. 20 people crowding interview. Discussed loan	Shop keeper maybe was a little embarrassed due to amount of people.
(B)Field Executives- Urban Operations	30.06.2009	12:15/07m00s		Nauman	Interview conducted on the street, bikes and people crowding. Talked about process of acquiring and retaining clients	Medium access, distractions from onlookers and passers by. Medium depth of information. Only Hindi
(C)Woman client	30.06.2009	20m	In her home	unknown	Informal, on floor. Talked about other lenders, use of loan, future ambitions etc.	Good access, environment provided good observational opportunities. Only Hindi

ORGANIZATION 3: PSC (PROJECT SOCIAL CONCERN)

FORM: SECTION 25

LOCATION: HEADQUARTERS IN DELHI, BRANCH OFFICES AND OPERATIONS IN JAIPUR, RAJHASTAN.

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
(A) Chief Operations Officer	30.06.2009	16:27/ 1h26m46s	Head office, Safdarjung Enclave - Delhi	Ravi Gupta	Office atmosphere. Talked about company description, challenges, and general MFI market	Good Access, good English. Open to talking about the challenges and shortcomings of the organization.
(A,B) Branch Manager, Bakhrota	07.07.2009	11:27/ 1h17m32s	Rural Branch Office, Bakhrota, Jaipur	Satendra Pareek	Semi-formal atmosphere. Talked about the operations of PSC and the role of a branch manager.	Medium Access and English. Some depth reached. Few disruptions, however hard to understand accent and noisy atmosphere.
(B) Field Officer	07.07.2009	50 minutes	Rural Branch Office, Bakhrota, Jaipur and vehicle	Nauman	Interview conducted in office in informal setting without the presence of superior. Interview continued in vehicle on the way home. Talked about being a loan officer and the problems with HR Issues.	High degree of access and depth. More access reached when interview conducted in car. Hindi Only
(C) Women of SHG group	08.07.2009	8:53/ 23m48s	Village Hatoz		Smaller group consisting of 17 people. Talked about what loans were used for and	Smaller group allowed penetration on an individual basis. Good access. Field officers

					empowerment issues.	presence seemed not to affect answers. Only Hindi
(C) Women of SHG group	08.07.2009		Village Hatoz		Larger group. Minor questions asked consisting of what they had invested the money in.	Lots of disruptions. Large argumenet consisting of around ten people in the background. Only Hindi
(B) Loan Offcer	08.07.2009	10:12/ 20m01s	Village Hatoz	Meena Kumari	Informal meeting over a cup of tea in Field Officer's house. Discussed HR issues and background	Medium Access, very informal Hindi only
(B) Accountant	08.07.2009	11:19/ 08m08s	Branch Office	Shiu	Talked about accounts and future of the company	Bad Access, Hindi only, problems with communication, many misunderstandings

ORGANIZATION 4: SEWA BANK

FORM: WOMEN'S COOPERATIVE BANK

LOCATION: AHMEDABAD, GUJRAT

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
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(A) Directors Assistant	09.07.2009	13:27/ 57m44s	SEWA Bank, Ahmedabad	Hiral P. Shah	In reception area, manu distractions, loud noises, a lot of management talk	Person who we arranged meeting with was not there, no one knew we had a meeting, bad access. English Only.
(B) Rural Officer	10.07.2009	Conducted over the entire field visit of about an hour	Auto- rickshaw, in the field, and in peoples' houses	Mrunalini Machhar	Talked about her job, how she sees the company and future ambitions	Informal, medium access, limited knowledge about issues, shy of opposite gender. English and Hindi
(B) Urban Areas Field Officer	10.07.2009	Conducted over the entire field visit of about an hour	Auto- rickshaw, in the field, and in peoples' houses	Paragi Hitenshah	Talked about her job, products offered by the company, and future ambitions	Informal, good access, some problems with communication due to use of Gujrati dialect. Hindi only.
(C) Client	10.07.2009	10-15 min	In client's house	Gangabein	Informal, talked about reasons for loaning and how she came in contact with company	Spoke only Gujrati so questions had to be translated, but access seemed relatively good, open and informal, happy to talk to us
(C) Client	10.07.2009	10-15 min	In client's house	Savitribein	Informal, talked about reasons for loaning and how she came in contact with	Spoke only Gujrati so questions had to be translated, but access seemed relatively good,

					company	open and informal, happy to talk to us
(C) Client	10.07.2009	10-15 min	In client's house	Jayabein	Informal, talked about reasons for loaning and how she came in contact with company	Spoke only Gujrati so questions had to be translated, but access seemed relatively good, open and informal, happy to talk to us

ORGANIZATION 5: MANN DESHI BANK

FORM: WOMEN'S COOPERATIVE BANK

LOCATION: MHASWAD, MAHARASHTARA

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
(A) Chief Administrations Officer	15.07.2009		Mann Deshi head office, Mhaswad	Vanita Shindi	Interview at reception area, informal. Talked about general background and operations	Medium access, less knowledge in certain areas of operations. Seemed honest. Medium English
(A) Founder and Chariperson	15.07.2009		Mann Deshi head office, Mhaswad	Chetna Gala Sinha	Interview at reception area,	Open, good access, didn't need much probing, some

					informal. Talked about general organization, start-up, mission and experience	misunderstandings, English only
(B) Interns	15.07.2009	20 min	Mann Deshi head office, Mhaswad	unknown	Interview at reception area, informal. Provided insight to impact assessment	Good access, very knowledgeable, some relevant information given, very open and good English.
(A, B) Field Officer and Public Relations Officers	16.07.2009	1h	In the Satara Branch, Urban Operations and in the field			
(C) Two women from separate JLGs	16.07.2009	45min	At one woman's shop and other's house			

ORGANIZATION 6: ASHTA NO KAI

FORM: NGO

LOCATION: OPERATIONS IN VILLAGES IN OUTSKIRTS OF PUNE, MAHARASHTRA

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
(A) Founder and Chairperson	15.06.2009	2 hours	Jalawal Nehru University, Delhi	Armene Modi	Interview conducted at lounge at hostel. Private setting, insight into overall operations and history	Good access, seemed very honest and open. Willing to talk about challenges, very good English
(B) Field worker. Only employee in the field.	13.07.2009	Over the course of entire field visit (4 hours)	Nimgaon Bhogi	Vigayanta Raut	Interview conducted in the car as well as while walking around. Mostly observational	Minimal Access. Limited Hindi and no English. Due to this a translator was needed.
(C) Women from SHG	13.07.2009		Nimgaon Bhogi		Informal group interview. Mostly about usage of loans. Much observational material collected	Poor access due to high level of distractions and linguistic barrier. Seemed staged (later verified by Armene)
(I) Gram Sewa	13.07.2009		Nimgaon Bhogi		Formal interview in local office. Talked about his role and government intervention including BPL selection	Poor access. High level of distractions, hard to understand Hindi Accent. Difficult to engage in

					process.	conversation
(C) Women from SHG	13.07.2009		Village adjacent to Nimgaon		Met women who agreed meet us during a time when they normally would not have a meeting. Discussed impact of NGO, loans, and empowerment.	High access. Many women spoke Hindi and translator was not needed. Setting allowed individual questions.

ORGANIZATION 7: SKS

FORM: NBFC

LOCATION: HYDERABAD, ANDHRA PRADESH

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
(B) Representative of Communications and Public Relations Department at SKS	24.07.2009	8m	Car	Suma Prateysha	Short informal interview conducted in a vehicle on the way to Ghatkesar	Low access. Little relevant information procured. Interviewee unable or unwilling to reply on certain sensitive questions
(A,B) Branch Manager	24.07.2009	33m	Ghatkesar	Unknown	Short and formal interview conducted at the Branch office in Ghatkesar	Low access. Branch manager had limited English. Translation services were

						provided by the Sum Prateysha and thus were unreliable. Many instances where answers were changed after heated discourse with the PR Representative
(C) Group Women	24.07.2009	15m	Ghatkesar SKS Branch office	Unknown	Informal short question and answer session in the field at Ghatkesar	Low Access. Again translation services were provided by Suma and thus a high degree of unreliability. Branch manager was present even though this is uncommon practice at normal proceedings.
(A,B) Vice President of Planning Assistant and Midlevel manager within Communications and Public Relations Department	24.07.2009	55m	SKS Head office, Secunderbad	Ms. Kashimi	Long formal interview conducted in the Vice President of Communications Office	Low to medium access. Interviewee refused to answer certain questions and avoided certain other areas. High level of English and no translator

						needed.
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ORGANIZATION 8: SHARE MICROFINANCE LIMITED

FORM: NBFC

LOCATION: HYDERABAD, ANDHRA PRADESH

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
(A) VP Planning & Dy. VP Planning)	25.07.2009	1h 49 m	SML Headquarters, Secuderbad	S.B. Sadanand & Ramalingeswar Rao	Formal meeting in SML's main boardroom where a presentation of the organization was gone through along with a Q&A session	High level off access. Not difficult to ask sensitive questions and a deep level of the organizational development was covered. The entire interview was conducted in English where no translator was needed.

ORGANIZATION 9: KBS LABS

FORM: RURAL BANK

LOCATION: HYDERABAD, ANDHRA PRADESH

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access

(A) CEO	28.07.2009	2h 13m	KBS LAB Headquarters	Manmath Dalai	Informal presentation and Q&A session in the boardroom of KBS LAB with 13 other participants present including 3 other representatives of high level management at KBS	High Access. Presentation conducted in good English. Questions concerning sensitive areas were answered honestly in the format of a workshop.
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ORGANIZATION 10: DISHA

FORM: NGO-MFI

LOCATION: OPERATIONS IN VILLAGES IN OUTSKIRTS OF PUNE, MAHARASHTARA

BRIEF DESCRIPTION:

Post	Date	Time/ Length	Place	Name	Description	Access
(A) Board Members	16.07.2009	1h 28m	Rotary International, Pune	Mr. Mukherjee, Mr. Shah, and Unknown	Informatl interviewee conducted at Rotary International Pune Headquarters in a boardroom	Good Access. Medium engliah utilized however a high level of depth created where macroeconomic challenges for microfinance were covered and organizational background.

Independent Interviews Relating to Contextual Setting

INDEPENDENT INTERVIEW A: SACHIN MARDIKAR, Director – Consulting & Operations at AgriWatch

FORM: CONSULTING AGENCY

LOCATION: OFFICE IN DELHI

BRIEF DESCRIPTION: Agriwatch is a capacity building organization working particularly with livelihood development in the agricultural sector. This interview was conducted on the 17th of June 2009 at 8:57 p.m and lasted for 59m49s. The interview was conducted at the Habitat Center in Delhi. The interview was very informal and provided a very comprehensive picture of the microfinance landscape in India. Sachin has been working with development issues for many years.

INDEPENDENT INTERVIEW B: VISHAL BHARAT, Director – Investments at Caspian Advisors Private Ltd

S. VISWANATHA Founder of Caspian Advisors

FORM: PRIVATE EQUITY INVESTMENT FIRM

LOCATION: OFFICE IN HYDERABAD

BRIEF DESCRIPTION: This interview was conducted on the 22nd of July 2009 at the boardroom of Caspian Advisors in an informal setting. A high level of access was created with excellent English. The interview lasted for 40 minutes after a luncheon conducted with Vishal Bharat

INDEPENDENT INTERVIEW C: GANESH RENGASWAMY, working at UNITAS

FORM: EQUITY INVESTMENT FIRM

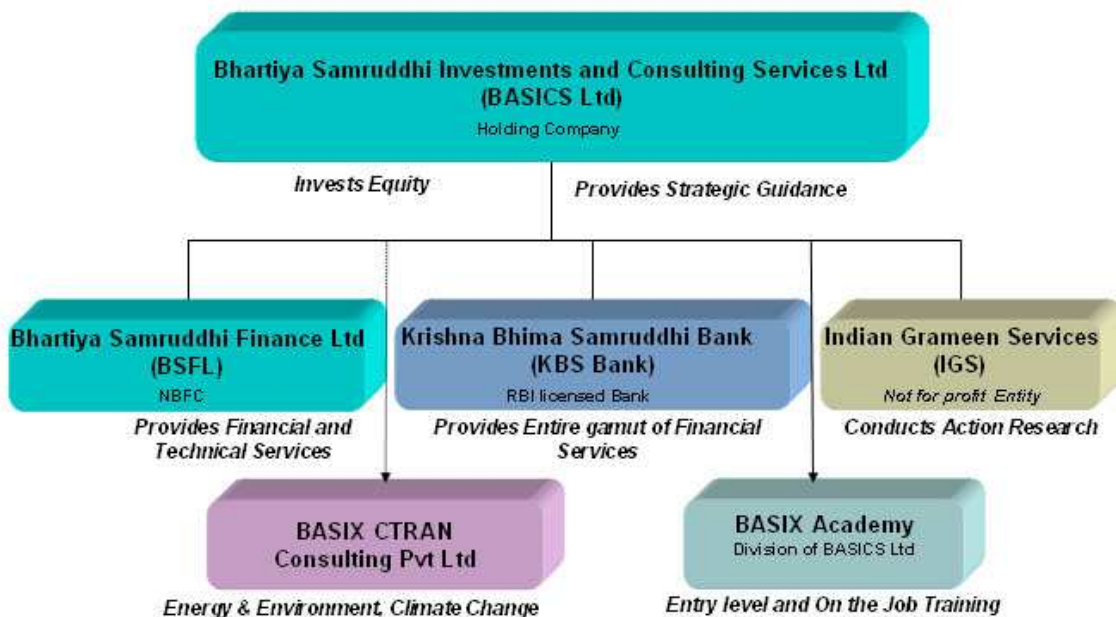
LOCATION: OFFICE IN BANGALORE

BRIEF DESCRIPTION: This interview was conducted on the 23rd of July 2009 in the form of a telephone interview lasting 30 minutes. High level of access created with a good level of English. However, time constraints did not allow for deeper analysis.

BASIX CORPORATE STRUCTURE

Total assets under management – Rs 400 crore

Multiple entities to deliver a range of Livelihood Promotion Services



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This image shows the corporate structure of the BASICS Holding Group. The organizations that have been discussed in this paper are BSFL (Bharatiya Samruddhi Finance Ltd) and KBS LAB (Krishna Bhima Samruddhi Local Area Bank). Due to their distinct legal structure, these two entities have been treated as separate organizations in the results and analysis of this paper.

BSFL is the non-banking financial company that can disburse loans but cannot accept deposits. Due to the core beliefs of the founder (the first need of the poor is savings) he struggled with regulatory issues to get a permit to accept savings. When this was not possible, he started working for a permit on a bank and in 2001 received a permit to start a local area bank, KBS.

¹⁷⁹ Image taken from official website of Basix India, URL http://69.89.31.196/~basixind/index.php?option=com_content&task=view&id=28&Itemid=215 [cited 20090908]